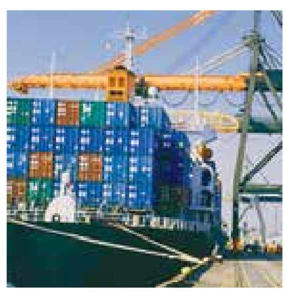
Agency Financial Report

Today's SBA: Smart, Bold, Accessible

U.S. Small Business Administration

Fiscal Year 2014



ABOUT THIS REPORT

The U.S. Small Business Administration's Agency Financial Report (AFR) for FY 2014 provides an overview of the Agency's financial and performance data to help Congress, the President, and the public assess SBA's stewardship over the resources entrusted to it. The AFR is the first in a series of three annual financial and performance reports for federal agencies choosing to produce a separate AFR. An Annual Performance Report (APR) and a Summary of Performance and Financial Information (SPFI) make up the other two reports. The FY 2014 APR is included as part of the FY 2016 Congressional Budget Justification (CBJ), which is the Agency's budget request to Congress. The FY 2014 SPFI is a summary of the financial, performance, and budgetary information presented in the AFR and the CBJ/APR. Both the SPFI and the CBJ/APR are scheduled for publication in February 2015. All three reports can be found at www.sba.gov/performance.

ABOUT THE COVER

The cover is a photo montage of small business winners that represents the Agency's commitment to provide small businesses and entrepreneurs with the resources they need to continue growing America's economy. Those featured, include: (top right) Amy Trelenberg and Megan Healy, ShopMamie, Wilmington, Delaware; (middle right) Sandra and Arthur Johnson, Short Stop Food Truck, Point Wentworth, Georgia; (middle left) Jusak Bernhard and Jeff Manley, Tail Spin Pet Supply, Savannah, Georgia; (bottom left), Tom Frainier, Semifreddi's Bakery, Kensington, California.

FY 2014 HIGHLIGHTS

(Dollars in Thousands)	FY 2011	FY 2012	FY 2013	FY 2014
Loan Portfolio[1]	**$ 99,704,179**	**$ 104,442,586**	**$ 109,757,990**	**$ 114,450,173**
Regular FTE Employees	2,175	2,089	2,148	2,137
Disaster FTE Employees	1,141	1,145	1,628	991
Total Employees[2]	3,316	3,234	3,776	3,128
Total Assets	$ 16,882,801	$ 14,014,855	$ 13,846,170	$ 13,184,251
Total Liabilities	$ 17,191,824	$ 13,640,581	$ 12,462,316	$ 11,695,803
Total Net Position	$ (309,023)	$ 374,274	$ 1,383,854	$ 1,488,448
Total Net Cost of Operations	$ 3,460,562	$ 1,274,805	$ 524,086	$ (466,394)
Total Budgetary Resources	$ 19,277,292	$ 14,400,162	$ 14,059,594	$ 10,826,659

(1) The total portfolio consists of guarantied business loans outstanding, direct business loans, and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged off. In previous Agency Financial Reports, SBA has not included ARC 506, Dealer Floor Plan, 504 First Lien, and 504 Refi in the portfolio total. The SBA has updated the data for FY 2011-2014 to include these programs in the totals.

(2) The total does not include employees in the Offices of Advocacy or Inspector General.

FOR MORE INFORMATION

Information about SBA's programs is available at: www.sba.gov

SBA's plans and reports are available at: www.sba.gov/performance

Para información acerca de los programas de la SBA: www.sba.gov →"Translate" →"Select Language"

Questions and comments regarding the content, presentation and usefulness of this report are welcome and may be addressed to: performancereports@SBA.gov

Or, you may write to:

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SBA'S MISSION

Maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters.

How this Report is Organized

The U.S. Small Business Administration's FY 2014 Agency Financial Report (AFR) provides financial and performance information for the fiscal year beginning October 1, 2013 and ending September 30, 2014. This report presents SBA's operations, accomplishments, and challenges. It begins with a message from SBA Administrator Maria Contreras-Sweet, followed by three principal sections — Management's Discussion and Analysis, Financial Reporting, Other Information — and Appendices. "Success Stories" that highlight small business entrepreneurs appear throughout the report, along with interesting "Did You Know?" facts about the SBA and its work.

Management's Discussion and Analysis

The Management's Discussion and Analysis section provides a report of the Agency's overall financial position, program performance, and results of operations. It presents SBA's history, organization, and principal programs. This section highlights financial results and analysis; performance results and analysis; and analysis of systems, controls, and legal compliance.

Financial Reporting

The Financial Reporting section provides a detailed report of SBA's finances. It includes the audit transmittal memorandum from the Inspector General, the independent auditors' report, and the audited financial statements and notes. The required supplementary information provides a combining statement of budgetary resources, and the required supplementary stewardship information provides a report on stewardship investments in human capital.

Other Information

The Other Information section includes a schedule of spending and the Inspector General's report on the Agency's most serious management and performance challenges along with recommended actions. Also included in this section is a summary of financial statement audit and management assurances, a report on SBA's environmental footprint, and a detailed report on improper payments.

Appendices

The Appendices provide supporting information — a contact list of useful web sites and telephone numbers; a glossary; and a detailed report on audit follow-up activity.

MESSAGE FROM THE ADMINISTRATOR

November 17, 2014

I am proud to present the U.S. Small Business Administration's Fiscal Year 2014 Agency Financial Report. This report details SBA's financial and high-level program performance results and provides transparency in SBA's ongoing efforts to provide meaningful assistance to America's small business entrepreneurs.

The SBA facilitates access to capital, counseling, contracting opportunities, and disaster assistance to promote, support, and grow the nation's 28 million small businesses, which create two out of three net new private sector jobs in our economy. In fiscal year 2014, the SBA rebranded its offerings as part of an Agency-wide outreach campaign that is "Smart, Bold, and Accessible." We harnessed new technology to increase access to capital, and we broadened our scope to reach more entrepreneurs from traditionally underserved neighborhoods and demographics.

SBA financial and performance data in this report are reliable and complete. Our auditors issued an unmodified opinion on our FY 2014 financial statements and found no material weaknesses.

In the pages to follow, we have highlighted some of our key accomplishments during the fiscal year. In FY 2014, the SBA supported nearly $29 billion in lending through our 7(a) and 504 loan programs. These loans supported nearly 600,000 jobs across the country. The SBA did not receive a credit subsidy appropriation for the 7(a) loan program and relied on fees and a small amount of carryover subsidy to cover all the costs of our most popular credit offering. We accomplished this despite zeroing out fees for 7(a) loans of $150,000 or less last October to boost loan approvals to women, minorities, veterans, and business owners in distressed urban and rural areas.

In FY 2014, we made significant progress in our ongoing efforts to modernize the Agency's capital access programs. Our goal is to move toward 100 percent electronic submission of loan applications; 95 percent of loans were submitted electronically this year. In July, we implemented a predictive credit scoring model on smaller dollar loans ($350,000 or less) that combines a borrower's personal and business credit scores to create an underwriting system that promotes more equitable distribution of capital and speeds our response time on 7(a) loan applications. We also substantially advanced our work to fully automate the 7(a) lending application through the SBA One initiative.

The Small Business Investment Company (SBIC) Debenture program had another record year of growth. Investment funds licensed as SBICs provided nearly $5.5 billion in capital to small businesses, a 60 percent increase over last fiscal year. In FY 2014, the SBA licensed 30 new SBIC funds, and licensing times averaged 7.4 months. This helped the SBIC program execute more than $2.5 billion in commitments – an Agency record.

The SBA also reached an important milestone in our efforts to promote greater federal contracting opportunities for small businesses. In FY 2013, for the first time in eight years, the federal government surpassed its statutory prime contracting goal, and the Agency met its priority goal by awarding more than 23 percent of federal prime contracts to small businesses. Since FY 2011, federal agencies have awarded more than $264 billion in federal contracts to small firms. This achievement came despite the fact that overall federal contract spending has been reduced over the past several years. In FY 2013, the federal government also exceeded its small business contracting goals for businesses owned by service-disabled veterans (3.4 percent) and businesses considered socially or economically disadvantaged (8.6 percent).

The SBA provides mentoring, business advice, and training assistance to more than 1.2 million entrepreneurs and small businesses each year. These efforts help entrepreneurs create viable business plans; acquire capital; start businesses; and gain access to federal, corporate, and international supply chains. This year, we recognized the 50th anniversary of our resource partner, SCORE, whose 11,000 volunteer business mentors have provided high quality counseling to more than 10 million small business owners over the life of the program.

The SBA has also made significant strides in serving our veteran entrepreneurs. In FY 2014, the SBA trained more than 15,000 transitioning service members at 165 military installations nationwide through our Boots to Business program. This program, coupled with veterans loan advantage, provides the needed support to our hardworking military service members interested in starting their own business.

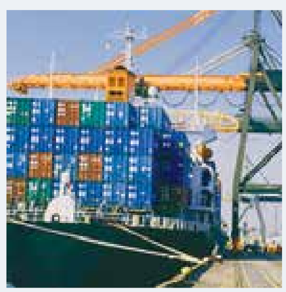
In FY 2014, the SBA approved more than 6,000 disaster loans totaling $332 million and worked 192 active declarations across the country. While our disaster assistance loan volume was down from the previous year, we continued to make strides in processing payments more quickly and efficiently. The SBA exceeded its priority goal for disaster loan applications returned, with a return rate of 69 percent. This higher application return rate means a greater number of disaster survivors received SBA's assistance in rebuilding or recovering from an economic injury. We also made process improvements by adding multiple points for disaster survivors to apply for SBA loans.

SBA services continue to be a vital resource for small businesses and an important driver of America's economic growth. In FY 2015, we plan to build upon these accomplishments to help more small businesses expand, create jobs, and help America advance on its path to a full and robust economic recovery.

Sincerely,

Maria Contreras-Sweet
Administrator

Management's Discussion & Analysis



PRIMER OF SBA'S PRINCIPAL PROGRAMS

CAPITAL (www.sba.gov/financialassistance)

The SBA has a total business loan portfolio of $98.7 billion.

7(a) Loan Guaranties — The SBA offers government guaranties on loans (up to $5.0 million) made by commercial lenders to help expand access to capital for business owners who face challenges in getting approved for financing. The SBA guarantees a portion of 7(a) loans made and administered by commercial lending institutions. Loans can be guaranteed for a variety of general business purposes.

504 CDC Loan Guaranties — These long-term, fixed-rate loans (up to $5.5 million) support investment in major assets such as real estate and heavy equipment. Loans are delivered by certified development companies (CDC) which are private, non-profit corporations. CDCs work with the SBA and private lenders to provide the financing. The SBA guarantees the CDC's portion of these loans.

Microloans — The SBA provides loans to non-profit intermediary lenders, which are community-based organizations with experience in lending and technical assistance, that in turn make these loans (up to $50,000) to small businesses needing small-scale financing and technical assistance for start-up or expansion.

Surety Bonds — A surety bond is a type of insurance that guarantees performance of a contract. If one party does not fulfill its end of the bargain, then the surety bond provides financial compensation to the other party. The SBA guarantees bonds issued by a surety company in order to encourage the surety company to provide bonds to small businesses.

CONTRACTING (www.sba.gov/contracting)

The SBA leads federal efforts to deliver 23 percent of contracts to small businesses, 5 percent to women-owned and small disadvantaged/8(a) businesses, and 3 percent to HUBZone and service-disabled veteran small businesses.

Procurement Assistance to Small Businesses — Small business contracts represent the largest form of direct monetary support for small business in the federal government. Within this goal are four sub-goals:

Small Disadvantaged Businesses— This program provides assistance through 8(a) Business Development and a set-aside contracting for businesses owned and controlled by socially and economically disadvantaged individuals. Over the course of nine years, a firm is assisted in gaining resources to compete for federal contracts as well as in the private sector.

HUBZone Small Businesses — This program provides sole-source and set-aside contracting for firms located in economically disadvantaged geographical areas.

Service-Disabled Veteran-Owned Small Businesses — This program allows federal agencies to set-aside contracts for competition only among service-disabled veteran-owned small businesses.

Women-Owned Small Businesses — This program allows federal agencies to set-aside certain contracts for competition only among small businesses owned and controlled by women.

ADVISING, MENTORING, AND TRAINING (www.sba.gov/local-assistance)

The SBA and its partners serve over 1.2 million small business clients a year through the following programs.

Small Business Development Centers — SBDCs deliver an array of services to small businesses and prospective business owners using an extensive network of 63 lead centers managing more than 900 service delivery points throughout the U.S. and the insular territories.

Women's Business Centers — WBCs provide counseling and training through over 100 non-profit educational centers across the nation. They provide services on a vast array of topics, from how to write a business plan to programs specifically for veterans. Many WBCs provide multilingual services, and a number offer flexible hours allowing for mothers with children to attend training classes.

Veterans Business Outreach Centers — SBA's 15 VBOCs provide counseling and training services to veteran-owned and service-disabled veteran-owned small businesses and entrepreneurs, along with Reserve Component members starting new small businesses or expanding established small businesses.

SCORE — SCORE is a non-profit association comprised of over 11,000 volunteer business mentors that serve entrepreneurs with in-person mentoring and local training workshops. As the largest volunteer business mentor network in the federal government, SCORE adapts its structure and services to meet the needs of the small business.

EXPORTING (www.sba.gov/oit)

The SBA provides export loans and training assistance to small businesses.

Export Loans — The SBA provides several different types of export loans, including SBA Export Express loans (up to $500,000), Export Working Capital loans (up to $5.0 million), and International Trade loans (up to $5.0 million) that provide small businesses with enhanced export financing options for their export transactions. The SBA provides technical assistance on export loans through U.S. Export Assistance Centers.

U.S. Export Assistance Centers — USEACs are staffed by professionals from the SBA, Department of Commerce and the Export-Import Bank. Together, their mission is to help small and medium-sized businesses compete in today's global marketplace by providing export assistance.

HIGH-GROWTH SMALL BUSINESSES (www.sba.gov/inv)

The SBA supports high-growth investments through a portfolio of $9 billion in debenture leverage.

SBIC — Small Business Investment Companies are privately owned and managed investment funds that use their own capital plus funds borrowed with an SBA guaranty to make equity and debt investments in qualifying small businesses.

SBIR — The Small Business Innovation Research program is a highly competitive funding agreement program that stimulates high-tech innovation by reserving a specific percentage of federal research and development funds for small business. SBIR protects the small business and enables it to compete on the same level as larger businesses.

DISASTER ASSISTANCE (www.sba.gov/disaster)

The SBA has a portfolio of $6.8 billion in direct disaster loans to businesses, homeowners, and renters.

Disaster — The SBA is the federal government's primary source of financing for the long-term repair and rebuilding of disaster-damaged private property for homeowners, renters, businesses of all sizes, and private non-profit organizations. It is the only form of SBA assistance not limited to small businesses.

SUCCESS STORY: Small Business Persons of the Year
Experience the Smell of Success

Pacifica, Portland, Oregon

Born with an entrepreneurial spirit, **William (Billy) Taylor,** CEO of Pacifica, got his start working for his grandparents on one of the first commercial marionberry farms in the world. **Brook Ann Harvey-Taylor,** President of Pacifica, became fascinated with the magical world of scents when, as a teen, she picked up a copy of author Tom Robbins' novel Jitterbug Perfume.

Billy's entrepreneurial spirit and Brook's creative vision joined forces. The duo borrowed a little money from family and started making candles in 1997. By 2008, Pacifica had reached $12 million in sales, but a change in distribution channels brought about a downturn that forced Billy and Brook to seek financing to reposition the brand and keep ownership of the firm. Through a $150,000 express line of credit and a $1.18 million SBA 7(a) loan, followed by a $500,000 SBA CAPLine, Billy and Brook secured the money they needed without compromising their ownership or vision. A bold change in the line of products from home fragrances to beauty and perfume products has Pacifica on a growth path to more than double revenue over a five-year span.

Since 2010, Pacifica has consistently added employees, ending 2013 with 110 employees and a 33 percent increase in sales over 2012.

Billy Taylor and Brook Harvey-Taylor are SBA's *2014 Small Business Persons of the Year.*

EXECUTIVE SUMMARY

The U.S. Small Business Administration's efforts to assist entrepreneurs and small business owners are critical to a healthy economy. Small businesses play a critical role in job creation and retention. Over the last two decades, small and new businesses have been responsible for creating two out of every three net new jobs, and today over half of all working Americans own or work for one of America's 28.0 million small businesses.

The SBA is committed to ensuring that America's small businesses have the access and opportunities they need to start and grow their operations and create new jobs. These tools include access to capital; opportunities in federal contracting; access to entrepreneurial advising, mentoring, and training assistance; and disaster assistance for business owners, homeowners, and renters.

Throughout FY 2014, the SBA relied on the three strategic goals identified in its *FY 2014-2018 Strategic Plan* to guide the Agency's actions:

1. *Growing businesses and creating jobs*
2. *Serving as the voice for small business*
3. *Building an SBA that meets the needs of today's and tomorrow's small businesses*

The following sections highlight financial and performance results for the Agency, including the four Agency Priority Goals and Federal Cross-Agency Priority (CAP) Goals. In-depth analysis can be found in the Analysis of Financial Results and Analysis of Performance Results sections. The complete set of performance results will be reported in the Annual Performance Report to be released in February 2015.

Financial Results

For FY 2014, SBA's total budgetary resources used for staffing, operations, and subsidy costs were $3.0 billion as well as $7.8 billion in nonbudgetary resources for loan financing used to purchase guarantied loans in default and to make direct loans. SBA's guarantied portion of the outstanding loan principal rose 5.6 percent in FY 2014, to $83.5 billion. New guaranties disbursed by SBA participating banks during FY 2014 were $18.0 billion, a 1.7 percent increase this year that contributed to the 5.6 percent increase in outstanding guaranties. Purchases of defaulted guarantied loans dropped again, falling from $2.0 billion last year to $1.4 billion this year. This encouraging trend is expected to continue in upcoming years as the nation moves further into economic recovery. The loan receivables portion of the SBA credit program portfolio continued to decline from $7.5 billion to $6.9 billion in FY 2014. The drop in loan receivables was caused by the decrease in purchases of defaulted guaranties, the liquidation and charge-off of existing defaulted guaranties, a decrease in new disaster direct loan disbursements, as well as collections on existing disaster loans.

Performance Results

In FY 2014, SBA's 7(a) loan program had its second highest year of approvals, and together with the 504 loan program, supported nearly $29.0 billion in lending. The 504 loan program declined from FY 2013 but the counter-balancing growth in the 7(a) program led the SBA to a net increase of gross approvals over the prior year. Overall, the SBA approved nearly 58,000 loans that supported more than 51,000 companies.

FY 2014 reflected a fifth consecutive year of growth for small business investment companies, a zero subsidy guaranty debenture program underpinned by a portfolio of public-private partnerships investing in small and typically high-growth businesses. About $5.5 billion was invested in 1,085 small businesses. Capital deployments increased 60 percent year-over-year and have more than tripled in six years.

The SBA continues to work with agencies across the government to expand small business contracting opportunities. From the beginning of FY 2011 through FY 2013, small businesses accessed more than $264.5 billion dollars in federal contracts. (FY 2014 contracting numbers continue to be collected and certified.)

The SBA provides mentoring, business advice, and training assistance to more than 1.2 million entrepreneurs and small businesses each year. In FY 2014, these efforts helped entrepreneurs start over 14,000 businesses, and create and/or retain more than 70,000 jobs.

Disaster loan applications and approvals declined compared to the prior year, which experienced the third largest disaster, Hurricane Sandy. In FY 2014, the Agency worked on 192 active disaster declarations and approved over 6,000 disasters totaling $332 million.

Agency Priority Goals

The Government Performance and Results Modernization Act of 2010 (GPRA) requires federal agencies to establish a set of two-year Agency Priority Goals (APGs) that reflect the highest priorities of agency leadership. The SBA has established four outcome-focused APGs.

- **Increase active lender participation.** *Expand access to capital by adding 325 new and returning lenders to SBA's flagship 7(a) loan program each year in FY 2014-2015.* The SBA increased small business access to capital by adding new and returning lenders to the 7(a) program. While the Agency missed its FY 2014 target by 5 percent, 308 new lenders provided nearly $317 million in new loans to small businesses.
- **Maximize small business participation in government contracting.** *Maximize small business participation in federal government contracting to meet the statutory goals and reduce participation by ineligible firms.* FY 2014 contracting numbers will continue to be collected and certified through the third quarter of FY 2015. The Agency did exceed its FY 2013 target with the federal government making 23.4 percent of contracting dollars available to small businesses.
- **Expand the base of lenders for small business exporters.** *Expand small business access to export financing by increasing the number of lenders to providing export financing solutions to 555 and the number of small business exporters receiving financing through SBA loan programs to 1,480 by FY 2015.* The SBA met 98 percent (513 lenders) of its FY 2014 export lender goal, and the SBA met 98 percent (1,392 small businesses assisted) of its small business assisted goal.
- **Increase the disaster loan application rate.** *By September 30, 2015, increase the return rate for disaster survivor applications by 10 percentage points (24 percent to 34 percent return rate).* The SBA increased its application return rate to ensure that disaster assistance resources for businesses, non-profit organizations, homeowners, and renters are deployed quickly, effectively, and efficiently. This year, the SBA had a return rate of 69 percent due to process improvements and improving customer service touch points.

Cross-Agency Priority Goals

The SBA also participates in many of the government-wide Federal Cross-Agency Priority (CAP) goals. The CAP goals are Presidential priorities, and are complemented by other cross-agency coordination and goal-setting efforts. A brief description of the CAP goals to which the SBA contributes follows.

- **Job Creating Investment:** This goal aims to improve federal investment tools and resources, while also increasing interagency coordination to encourage foreign direct investment, spurring job growth.
- **Cybersecurity:** Under this goal, agencies must improve cybersecurity performance through ongoing awareness of information security, vulnerabilities, and threats impacting the operating information environment, ensuring that only authorized users have access to resources and information; and the implementation of technologies and processes that reduce the risk of malware.
- **Customer Service:** This goal aims to deliver world-class customer service to citizens by making it faster and easier for individuals and businesses to complete transactions and have a positive experience with government.
- **Smarter IT Delivery:** This goal aims to improve outcomes and customer satisfaction with federal services through smarter IT delivery and stronger agency accountability for success.
- **Strategic Sourcing:** Agencies will expand the use of high-quality, high-value strategic sourcing solutions through this goal in order to improve the government's buying power and reduce contract duplication.
- **Benchmark and Improve Mission-Support Operations:** This goal will improve administrative efficiency and increase the adoption of effective management practices by establishing cost and quality benchmarks of mission-support operations and giving agency decision-makers better data to compare options, allocate resources, and improve processes.
- **Open Data:** Through this goal, agencies will fuel entrepreneurship and innovation and improve government efficiency and effectiveness by unlocking the value of government data and adopting management approaches that promote interoperability and openness of this data.
- **Lab to Market:** This goal aims to increase the economic impact of federally funded research and development by accelerating and improving the transfer of new technologies from the laboratory to the commercial marketplace.
- **People and Culture:** This goal aims to innovate by unlocking the full potential of the workforce of today and building the workforce needed for tomorrow.

SBA BY THE NUMBERS

(Dollars in Millions)

		FY 2011	FY 2012	FY 2013	FY 2014
Total Portfolio [1]	**Outstanding Principal Balance**	**$ 99,704**	**$ 104,443**	**$ 109,758**	**$ 114,450**
Capital [2]					
7(a) Loans	Dollars of Gross Loans Approved	$ 19,638	$ 15,153	$ 17,868	$ 19,191
504 Loans	Dollars of Gross Loans Approved	$ 4,845	$ 6,712	$ 5,227	$ 4,199
Microloans	Dollars of Gross Loans Approved to Microborrowers	$ 47	$ 45	$ 53	$ 54
Surety Bond	Dollars of Bid and Final Bonds Guaranteed	$ 3,660	$ 3,920	$ 6,150	$ 6,413
Contracting [3]					
Prime Contracting	Dollars of Contracts Awarded to Small Businesses	$ 91,468	$ 89,923	$ 83,143	N/A
HUBZone Small Businesses	Dollars of Contracts Awarded to HUBZone Small Businesses	$ 9,915	$ 8,140	$ 6,245	N/A
Small Disadvantaged Businesses	Dollars of Contracts Awarded to Disadvantaged Small Businesses	$ 32,412	$ 32,334	$ 30,616	N/A
Women-Owned Small Businesses	Dollars of Contracts Awarded to Women-Owned Small Businesses	$ 16,807	$ 16,180	$ 15,365	N/A
Service-Disabled Veteran-Owned Small Businesses	Dollars of Contracts to Awarded to Service-Disabled Veteran-Owned Small Businesses	$ 11,206	$ 12,256	$ 12,023	N/A
Advising, Mentoring, and Training [4]					
Small Business Development Centers (SBDCs)	Number of Clients Advised and Trained	557,698	543,512	532,377	485,013
Women's Business Centers (WBCs)	Number of Clients Advised and Trained	138,923	136,951	133,765	140,039
SCORE	Number of Clients Mentored and Trained	356,837	458,773	345,902	442,374
SBA Learning Center	Number of Clients Trained Online	234,000	220,596	150,355	182,000
Veteran's Business Outreach Centers (VBOCs)	Number of Clients Advised and Trained	63,908	88,614	73,062	75,393
Exporting					
Export Loans	Dollars of Gross Loans Approved	$ 925	$ 926	$ 1,191	$ 1,341
High-growth Small Businesses					
SBIC	Dollars of SBA Debenture Leverage Committed to SBICs	$ 1,827	$ 1,924	$ 2,156	$ 2,549
	Dollars of SBIC Debenture Capital to Small Businesses	$ 2,589	$ 2,950	$ 3,256	$ 5,465
Disaster					
Disaster Assistance [2] [5]	Dollars of Gross Loans Approved	$ 739	$ 690	$ 2,797	$ 332

(1) The total portfolio consists of guarantied business loans outstanding, direct business loans, and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged off. In previous Agency Financial Reports, the SBA has not included ARC 506, Dealer Floor Plan, 504 First Lien, and 504 Refi in the portfolio total. The SBA has updated the data for FY 2011-2014 to include these programs in the totals.

(2) The SBA tracks loan data in three ways: Gross Loans Approved (the total loans approved); Net Loans Approved (gross loans approved plus any loan increases minus any cancellations); and Disbursed Loans (the amount that is actually given to the borrower). Gross Loans Approved is presented in the Capital and Disaster Assistance sections because it is the only loan data that remain constant over time.

(3) FY 2014 contracting numbers will continue to be collected and certified through the third quarter of FY 2015. Therefore, FY 2013 numbers are reported per OMB Circular A-11.

(4) Counseling is now referred to as "advising" and "mentoring." The way these numbers are calculated has not changed. Data was pulled at November 14, 2014 for FY 2014; resource partners may input data up to 45 days after the close of the fiscal year.

(5) The significant increase in FY 2013 disaster loan approvals is attributable to Hurricane Sandy.

SBA'S HISTORY AND ORGANIZATION

In 1953, Congress created the U.S. Small Business Administration to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns." SBA's headquarters is located in Washington, D.C. while its business products and services are delivered with the help of field personnel and a vast network of private sector and non-profit partners in each U.S. state and territory. Major SBA offices fall under one of three Agency-wide strategic goals, as outlined in SBA's *FY 2014-2018 Strategic Plan*:

STRATEGIC GOAL ONE – Growing businesses and creating jobs

The Office of Capital Access assists small businesses in obtaining capital via the 7(a), 504, and Microloan programs through an extensive lending network and bonding through the Surety Bond Guarantee program.

The Office of Disaster Assistance provides affordable, timely, and accessible financial assistance to homeowners, renters, and businesses following a disaster. The Disaster loan program is the only form of SBA assistance that is not limited to small businesses.

The Office of Entrepreneurial Development provides business advising, mentoring, and training assistance through its resource partner network composed of small business development centers, women's business centers, and SCORE, as well as through the Regional Innovation Clusters, Entrepreneurship Education, SBA Learning Center, and Emerging Leaders programs. In addition, SBA's district offices support coordination between SBA resource partners and local small business communities.

The Office of Government Contracting and Business Development provides assistance to small businesses competing for federal contracting opportunities through the government-wide prime and subcontracting programs. This includes HUBZone, 8(a) business development, 7(j) technical assistance, women-owned, and veteran-owned small businesses. The office also sets size standards for small businesses, which determine the size a business must be to be considered a small business.

The Office of International Trade enhances the ability of small businesses to export and compete in the global marketplace by facilitating access to capital, providing technical assistance, ensuring the interests of small business are considered and reflected in trade negotiations, and supporting and contributing to the U.S. government's international commercial and economic agenda.

The Office of Investments and Innovation assists high-growth small businesses through the Small Business Investment Company, Small Business Innovation Research, Small Business Technology Transfer, and other tailored programs that drive innovation and competitiveness.

STRATEGIC GOAL TWO – Serving as the voice for small business

Strategic Goal Two focuses on underserved communities and outreach to ensure that all small businesses receive equal representation in the marketplace. SBA's Office of Capital Access, Office of Entrepreneurial Development, and Office of Government Contracting and Business Development (all defined under Strategic Goal One) each have programs that support underserved communities.

The Office of Communications and Public Liaison communicates the Agency's programs and priorities to small businesses, their partners, and the public at large by working with media outlets, developing social media content, creating user-friendly online resources, crafting high quality marketing materials, organizing events to gain feedback from small businesses, and coordinating strategic partnerships.

The Office of Faith-Based and Neighborhood Partnerships works to expand the reach and impact of SBA's programs in underserved communities and promote economic growth and community development through outreach, programming, coordination, and strategic partnerships.

The Office of Field Operations works as the front-line operating team for the SBA. Most SBA programs and services are executed when small businesses connect with their regional, district, and branch offices located in each state and territory.

The Office of the National Ombudsman works with all federal agencies that regulate small businesses to provide a means for businesses to comment on Agency enforcement activity, including audits, on-site inspections, compliance assistance efforts, or other enforcement activity. The office also maintains a five-member Regulatory Fairness Board in each of SBA's ten regions to hold public hearings on small business concerns.

The Office of Native American Affairs ensures that American Indians, Native Alaskans, and Native Hawaiians seeking to create, develop, and expand small businesses have full access to the necessary business development and expansion tools available through the Agency's entrepreneurial development, lending, and procurement programs. The office works in coordination with other SBA offices to assist in formulating policies and engaging in outreach, technical assistance, and education opportunities with other federal agencies.

The Office of Veterans Business Development ensures availability, applicability, and usability of all Administration small business programs for veterans, service-disabled veterans, Reserve Component members, and their dependents or survivors. The office accomplishes its work through veterans business outreach centers, the Boots to Business program, Entrepreneurship Boot Camp for veterans with disabilities, and partnerships with other federal and non-profit agencies.

The National Women's Business Council is a nonpartisan federal government council created to serve as an independent source of advice and policy recommendations to the President, Congress, and SBA Administrator on issues of economic importance to women business owners.

STRATEGIC GOAL THREE — Building an SBA that meets the needs of today's and tomorrow's small businesses

SBA's management offices primarily support Strategic Goal Three. Each program office, discussed in Strategic Goals 1 and 2, maintains a key role ensuring that the Agency mitigates risk in its programs.

The Office of the Chief Information Officer provides information technology leadership, product services, and operational support for the SBA in order to maximize internal efficiency and responsiveness to small businesses.

The Office of Credit Risk Management focuses on mitigation of risk to taxpayers through ever-improving risk management and oversight of SBA lending programs.

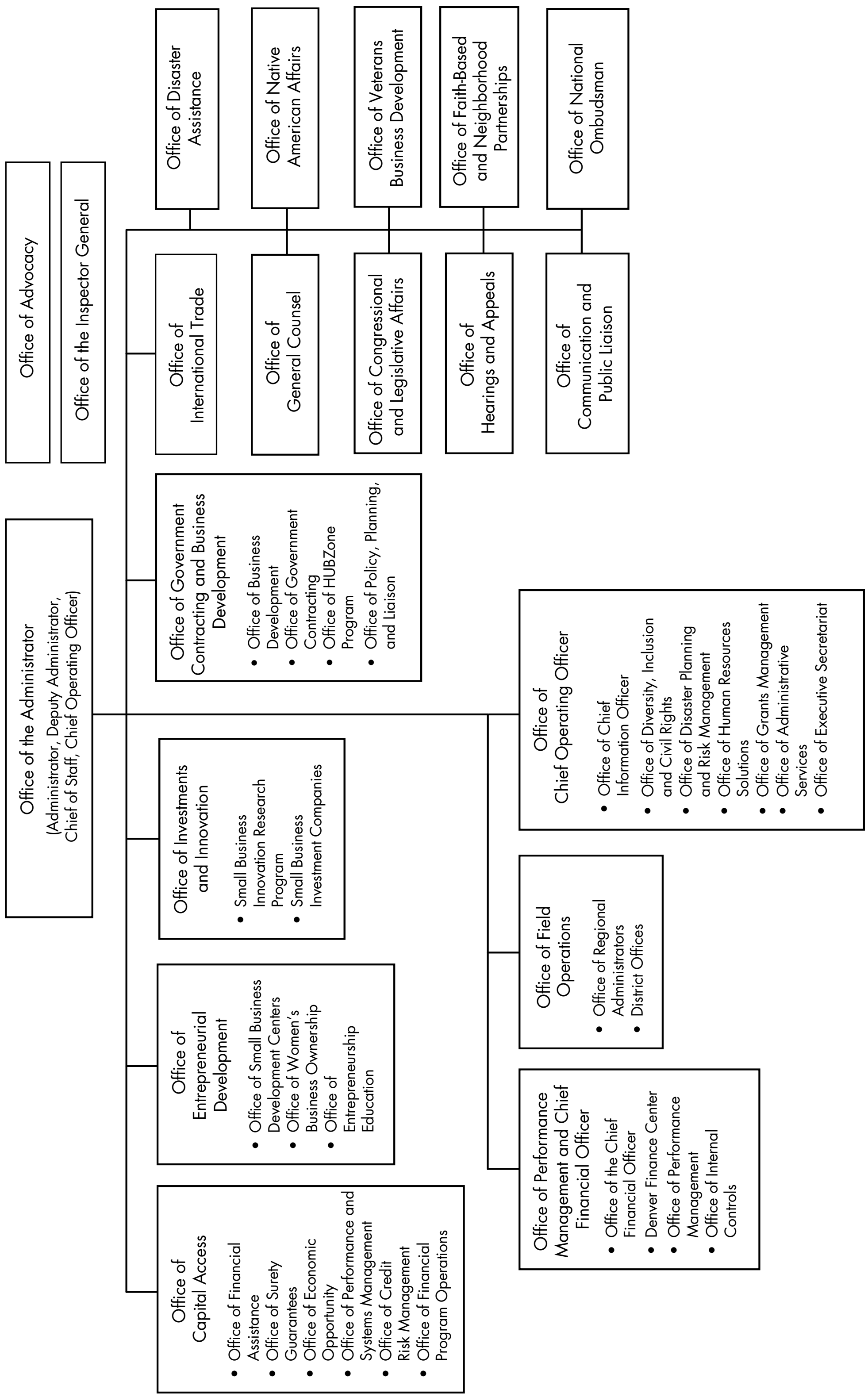
The Office of Diversity, Inclusion, and Civil Rights serves a diverse workforce by maintaining an inclusive culture and ensuring equal access and equitable treatment regarding employment and entrepreneurial endeavors.

The Office of Human Resources Solutions provides strategic human capital solutions to workforce issues and strives to create a work environment that attracts and retains a talented and high-performing workforce.

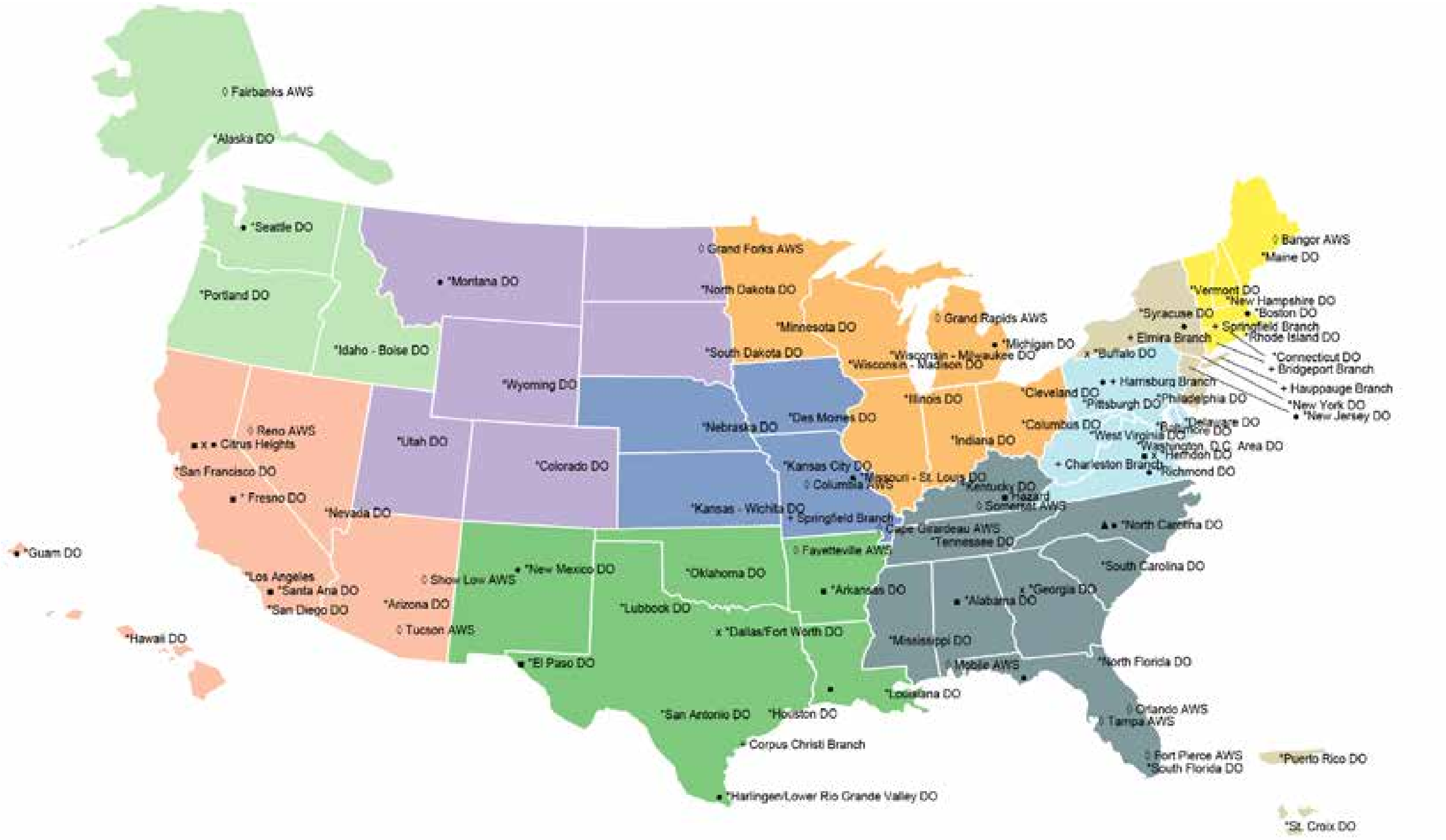
The Office of Performance Management and Chief Financial Officer provides Agency performance management, financial, and acquisition oversight. The office is responsible for Agency disbursements, management, and coordination of Agency planning, budgeting, analysis, and accountability processes.

Other support offices include the *Office of Congressional and Legislative Affairs, Office of General Counsel, and Office of Hearings and Appeals.*

SBA ORGANIZATION CHART



SBA REGIONS AND FIELD OFFICES



Location Type

- ■ Processing Center
- ● Veterans Center
- ▲ Call Center
- x Disaster Center
- * District Office (DO)
- \+ Branch Office
- ◊ Alternative Work Site (AWS)

	Region	Regional Office		Region	Regional Office
Region	New England	Boston	Region	South Central	Dallas
Region	Atlantic	New York	Region	Great Plains	Kansas City
Region	Mid-Atlantic	Philadeplhia	Region	Rocky Mountains	Denver
Region	Southeast	Atlanta	Region	Pacific	Los Angeles
Region	Great Lakes	Chicago	Region	Pacific Northwest	Seattle

ANALYSIS OF PERFORMANCE RESULTS

Analysis of Performance and Agency Priority Goals

The following section presents key SBA FY 2014 performance data, including the four FY 2014-2015 Agency Priority Goals identified by SBA leadership that are critical to the success of SBA's mission. While the Agency Priority Goals are two-year goals, the FY 2014 results are measured against FY 2014 targets.

The presentation of the performance data and analysis is by strategic objective, which follows SBA's *FY 2014-2018 Strategic Plan*. The following measures and analysis represent SBA's three strategic goals. Note that not all strategic objectives are highlighted in the analysis. Detailed performance information on all SBA programs will be presented, and all variances explained, in the FY 2016 Congressional Budget Justification and FY 2014 Annual Performance Report to be published in February 2015.

STRATEGIC OBJECTIVE 1.1: Expand access to capital through SBA's extensive lending network.

Priority Goal: Expand access to capital by adding 325 new or returning lenders to SBA's flagship 7(a) loan program in FY 2014 and FY 2015.

Performance Analysis: New and returning lenders are a major component of SBA's lending portfolio and are essential to growth in the quantity of loans approved and small businesses assisted. Attaining a high volume of new and returning lenders from one fiscal year to the next creates a consistent pipeline of SBA loans for small businesses. The SBA accomplished 95 percent of its FY 2014 target (308 new lenders) (see **Chart I**). These new and returning lenders made 684 loans totaling $317.0 million. The number of new and returning lenders recruited slowed in the fourth quarter. However, the lending community has been responsive to SBA's strategy of fee relief for lower-dollar loans and loan program improvements.

Performance Goal: Support 674,850 jobs through capital assistance programs in FY 2014.

Performance Analysis: The number of jobs supported is an important outcome measure of the effectiveness of SBA financing. The measure tracks the number of jobs supported through the 7(a), 504, Microloan, and Surety Bond Guarantee programs. In FY 2014, the SBA supported 615,364 jobs, which is 9 percent below the target (see **Chart II**). Part of the decline is attributable to fewer 504 loans. While the Agency did not meet its target, continued streamlining of the loan process and ensuring effective

CHART I CUMULATIVE NUMBER OF 7(a) NEW OR RETURNING LENDERS

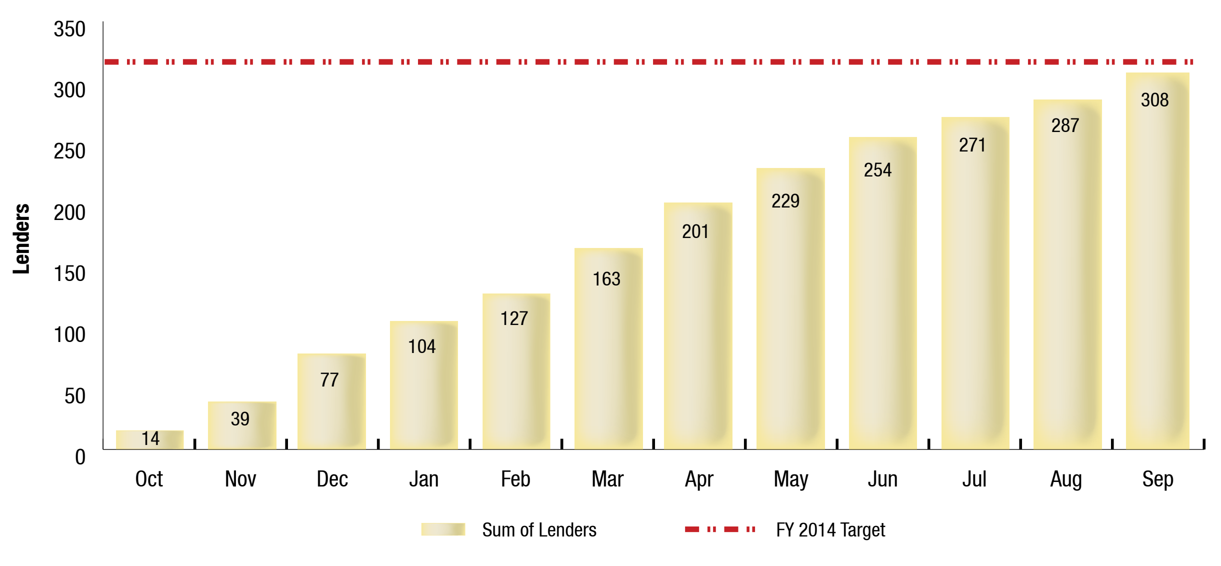
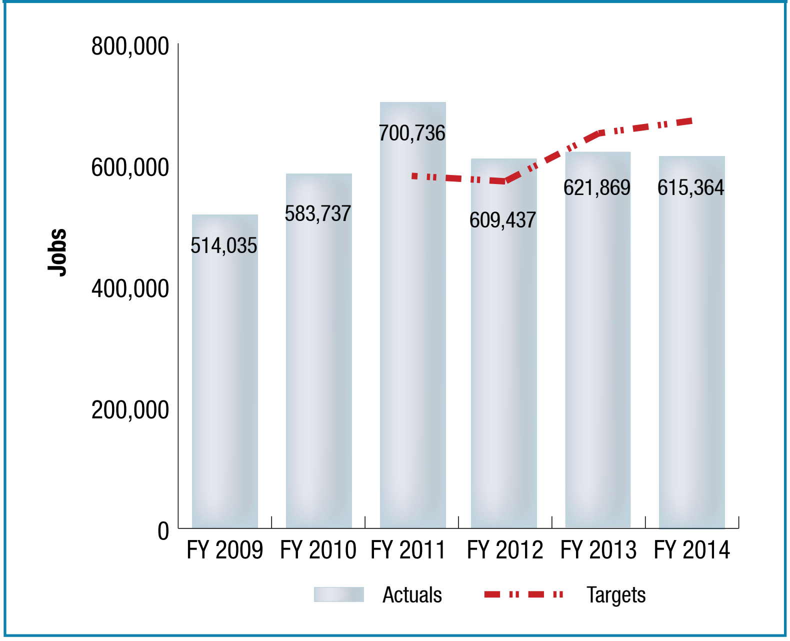


CHART II 7(a), 504, MICROLOAN, AND SURETY BOND GUARANTEE JOBS SUPPORTED



certified development companies should have a positive impact on future results.

STRATEGIC OBJECTIVE 1.2: Ensure federal contracting goals are met and/or exceeded by collaborating across the federal government to expand opportunities for small businesses and strengthen the integrity of the federal contracting certification process and data.

Priority Goal: Maximize small business participation in federal government contracting to meet the statutory goals and reduce participation by ineligible firms.

Performance Analysis: Small businesses receive a 23 percent set-aside of federal government prime contracting dollars, including 5 percent of prime and subcontracts to small disadvantaged businesses and women-owned small businesses, and 3 percent of prime and subcontracts to HUBZone small businesses and service-disabled veteran-owned small businesses (see **Chart III**). In FY 2013, the federal government surpassed its prime contracting goal; small businesses were awarded $83.0 billion in contracting dollars. The goal for service-disabled veterans was surpassed (FY 2013 result was 3.4 percent) for the second time, and small disadvantaged businesses exceeded the goal (FY 2013 result was 8.6 percent) due in part to the successful Mentor-Protégé program that fosters relationships between successful firms and disadvantaged small businesses. The removal of statutory limitations on the dollar amount of contracts that can be set aside for women-owned small businesses contributed to the increase of women-owned small business contracting dollars; the result was an increase from 4 percent in FY 2012 to 4.3 percent in FY 2013. Although HUBZone continues to recruit new firms, the portfolio has not recovered from the loss of firms due to re-designation of areas from the 2010 census (see **Chart IV**). FY 2014 contracting numbers will continue to be collected and certified through the third quarter of FY 2015. Therefore, FY 2013 numbers are reported per OMB Circular A-11.

CHART III PERCENT OF FEDERAL PRIME CONTRACT DOLLARS AWARDED TO SMALL BUSINESSES

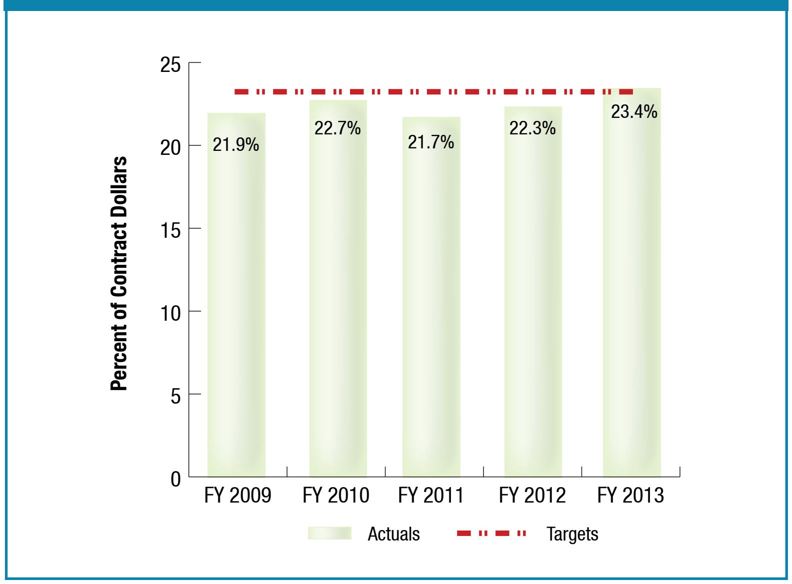
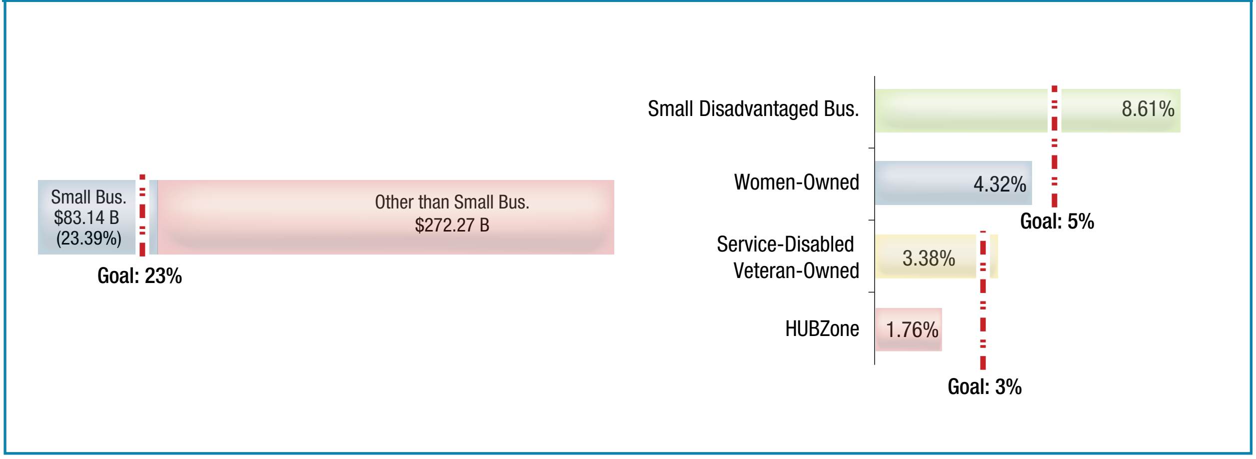


CHART IV FY 2013 SMALL BUSINESS FEDERAL CONTRACT PARTICIPATION



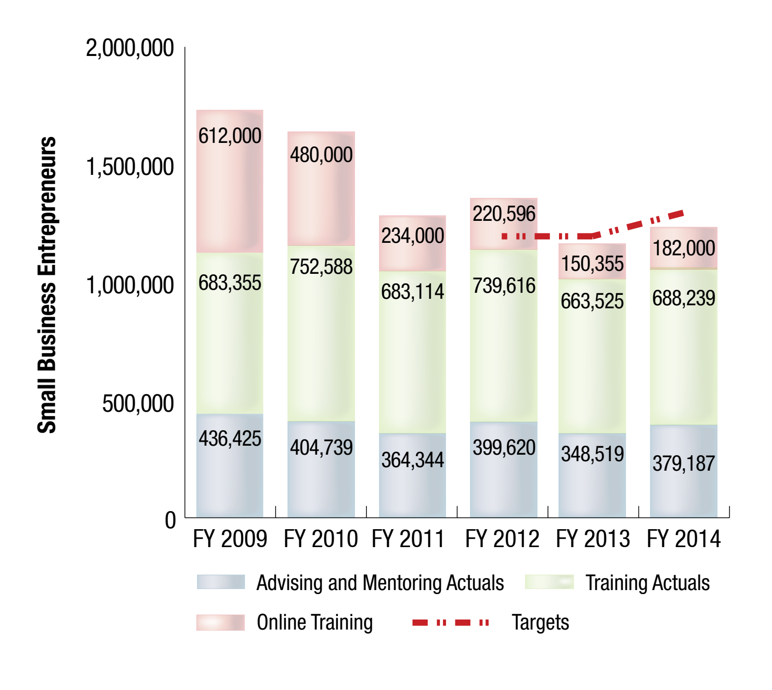
STRATEGIC OBJECTIVE 1.3: Strengthen entrepreneurial ecosystems through a variety of strategic partnerships to provide tailored training, mentoring, and counseling services that support entrepreneurs during every phase of their business growth.

Performance Goal: Reach 1.2 million clients with online and in-person advising, mentoring, and training in FY 2014.

To improve performance, the SBA Online Learning Center was revamped by creating specialized content for women, veteran, encore, and youth entrepreneurs along with translation of popular courses to Spanish. Also, the SBDC program expanded outreach for exporters and veterans, the WBC program implemented a streamlined grant process to allow greater time for delivering services, and the SCORE program began offering assistance online.

Performance Analysis: The SBA accomplished 96 percent of its performance target for advising, mentoring, and training assistance (see **Chart V**) and exceed its advising and mentoring target by 1.7 percent. Data was pulled at November 14, 2014 for FY 2014; resource partners may input data up to 45 days after the close of the fiscal year. While the SCORE and Women's Business Center (WBC) programs experienced a 28 and 5 percent increase respectively in the number of clients served from FY 2013 to FY 2014, the Small Business Development Center (SBDC) program had a 9 percent decrease in the number of clients advised and trained. While the SCORE program relies on volunteers to provide assistance, the SBDC and WBC programs have been more impacted by stagnant budgets and sequestration.

CHART V SMALL BUSINESS ENTREPRENEURS ADVISED, MENTORED, AND TRAINED



STRATEGIC OBJECTIVE 1.4: Enhance the ability of current and future small business exporters to succeed in global markets by expanding access to financing, counseling, training, and other export tools.

Priority Goal: Expand small business access to export financing by increasing the number of lenders providing export financing solutions to 555 and the number of small business exporters receiving financing through SBA loan programs to 1,480 by FY 2015.

Performance Analysis: Increasing access to export financing, combined with trade counseling and training, contributes to the enhanced ability of current and future U.S. small business exporters to succeed in the global marketplace. The SBA accomplished 98 percent (513 lenders) of its FY 2014 export lender target and 98 percent (1,392 small businesses) of its small businesses assisted target (see **Charts VI and VII**). Throughout the year, these numbers continued to track upwards as anticipated. Although existing lenders financed additional loans to exporters, the recruitment rate of new lenders in the fourth quarter de-

CHART VI CUMULATIVE NUMBER OF SMALL BUSINESSES ASSISTED

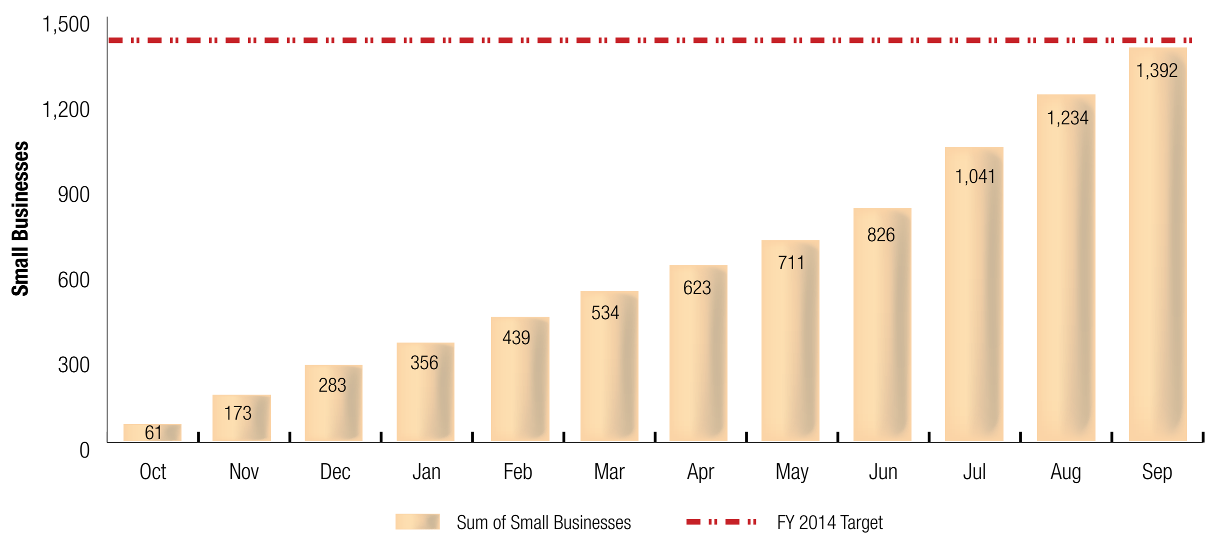
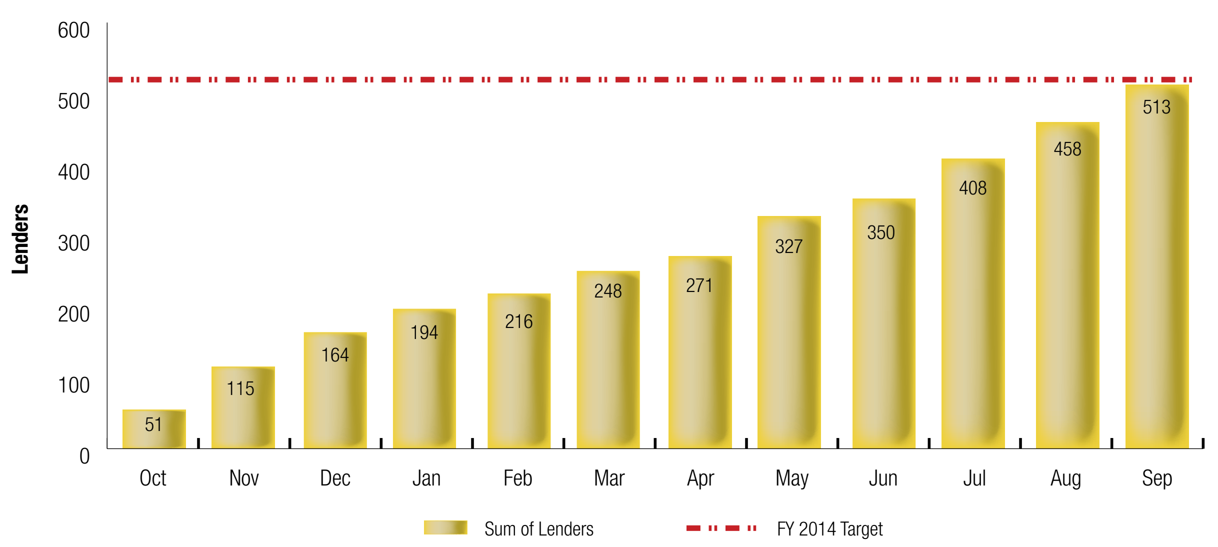
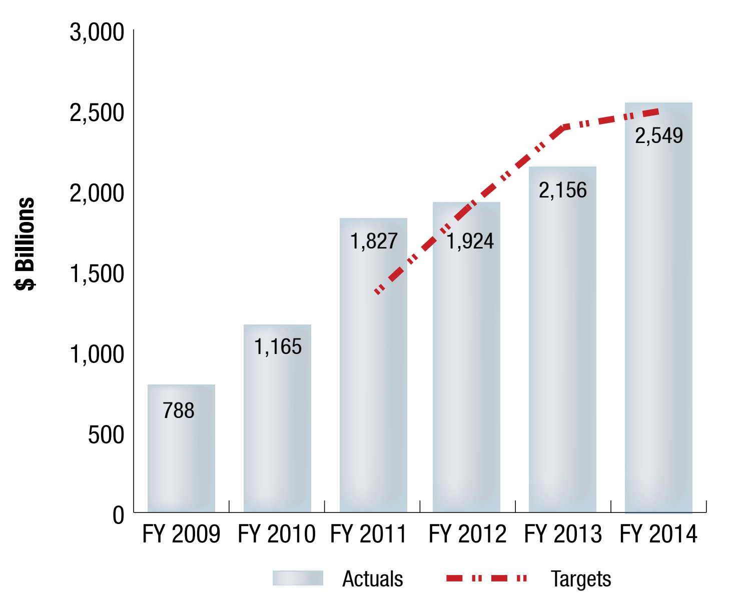


CHART VII CUMULATIVE NUMBER OF EXPORT LENDERS



clined. The primary challenge is related to export counselor staffing shortages across the country at U.S Export Assistance Centers.

CHART VIII CUMULATIVE SBIC DEBENTURE LEVERAGE COMMITTED



STRATEGIC OBJECTIVE 1.5: Fuel high-growth entrepreneurship, innovation, and job creation by providing the tools small businesses need to start and grow their businesses.

Performance Goal: Issue $2.5 billion in debenture leverage to small business investment companies (SBICs) in FY 2014.

Performance Analysis: SBICs provide long-term loans and equity capital to small businesses. The SBICs are privately owned and managed investment funds that are licensed and regulated by the SBA. In FY 2014, SBICs were able to raise the private capital required to receive federal leverage at an earlier than expected rate. This caused an increase of 2 percent over the expected financing target of $2.5 billion (see **Chart VIII**). At the same time that debenture leverage was increasing, the SBA continued to license 30 new SBICs with an average licensing time of 7.6 months.

STRATEGIC OBJECTIVE 1.6: Ensure that SBA's disaster assistance resources for businesses, non-profit organizations, homeowners, and renters can be deployed quickly, effectively, and efficiently in order to preserve jobs and help return small businesses to operation.

Priority Goal: By September 30, 2015, increase the return rate for disaster survivor applications by 10 percentage points (24 percent to 34 percent return rate).

Performance Analysis: Increasing the application return rate also ensures that SBA's disaster assistance resources for businesses, non-profit organizations, homeowners, and renters are deployed quickly, effectively, and efficiently in order to preserve jobs and help return small businesses to operation. As a result of implementing a new process for issuing applications to disaster survivors, the SBA exceeded its target by 37 percent this year (see **Chart IX**). Each quarter, the SBA successfully increased the disaster loan application return rate, going from 24 percent in FY 2013 to 69 percent in FY 2014. SBA's new process for issuing applications in Stafford Act declarations has not only helped to increase the application return rate but has improved customer service by adding multiple points for disaster survivors to apply for an SBA loan. The SBA also implemented two new regulatory changes (increased collateral requirement, and modified loan approval process using credit scores) which resulted from SBA's membership in the Hurricane Sandy Rebuilding Task Force. These efforts have helped increase the speed of disaster loans and improved customer service.

Performance Goal: Ensure the customer satisfaction rate for disaster loan approvals is 71 percent in FY 2014.

Performance Analysis: The SBA tracks customer satisfaction through an annual survey that uses the American Customer Satisfaction Index. The index synthesizes key points in the loan process, including the application, staff, final decision, and closing of the loan. The SBA had a customer satisfaction rate of 80 percent this year – above the 71 percent target (see **Chart X**). The high satisfaction rate is attributable in part to the increased speed of processing disaster applications. For example, the electronic loan application rate increased to 79 percent in FY 2014, tripling the rate from FY 2011.

CHART IX RETURN RATE FOR DISASTER SURVIVOR APPLICATIONS

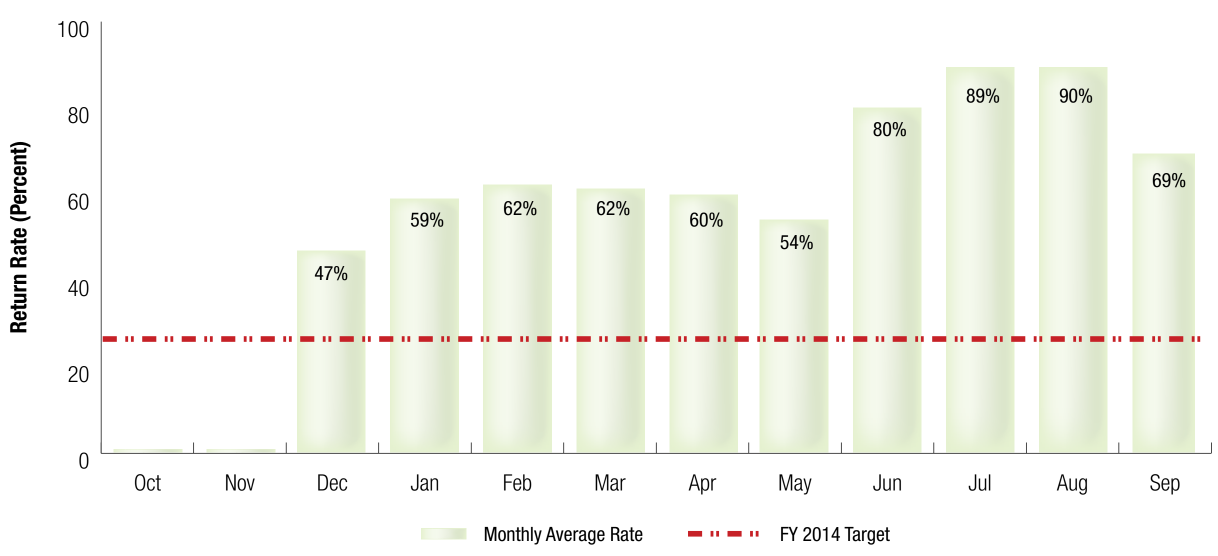
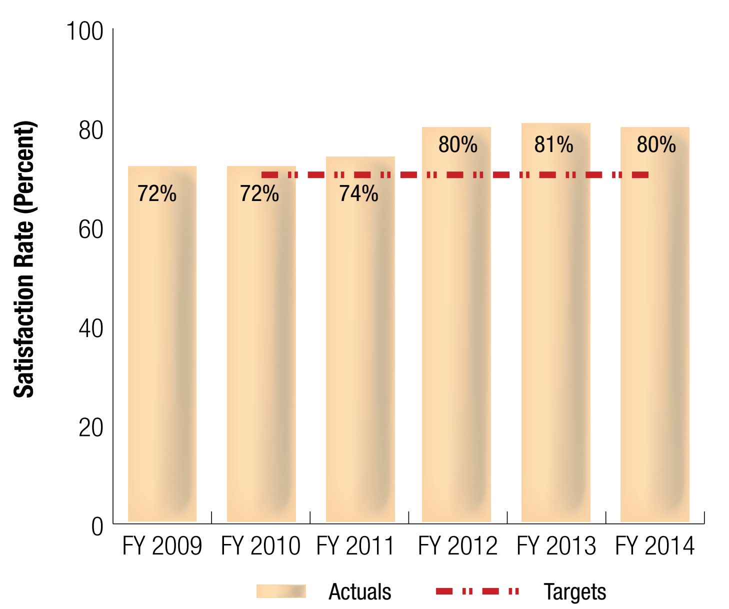


CHART X CUSTOMER SATISFACTION RATE FOR DISASTER LOAN APPROVALS



STRATEGIC OBJECTIVE 2.1: Ensure inclusive entrepreneurship by expanding access and opportunity to small businesses and entrepreneurs in communities where market gaps remain.

Performance Goal: Assist 31,550 underserved small businesses through capital assistance programs and 14,475 underserved small businesses through contracting programs.

Performance Analysis: Underserved communities – including women, low-income, minority, and veteran entrepreneurs – often have difficulty accessing capital and federal contracts. For capital assistance programs, including 7(a), 504, and Microloans, the SBA assisted 38,547 underserved small businesses – exceeding the FY 2013 result by 15 percent (see **Chart XI**). The elimination of the fees on small dollar loans ($150,000 or less) has attributed to the increase in number of small businesses assisted. Also, the streamlined application process that uses credit scores instead of a personal cash flow history analysis has greatly incentivized new lenders and made the loan application process more efficient.

For contracting programs, including 8(a) and HUBZone, the SBA assisted 13,029 underserved small businesses (see **Chart XII**). While the results are similar to FY 2013, the decline of 38 percent from FY 2010 to FY 2014 is due to redesignation of HUBZone areas from the 2010 census. The SBA continues to recruit new firms and conduct outreach and training to expand the HUBZone portfolio. Proposed regulations to expand the successful Mentor-Protégé program under the 8(a) program to other underserved markets will support more small businesses in FY 2015.

CHART XI SMALL BUSINESSES IN UNDERSERVED MARKETS ASSISTED BY 7(a), 504, AND MICROLOANS

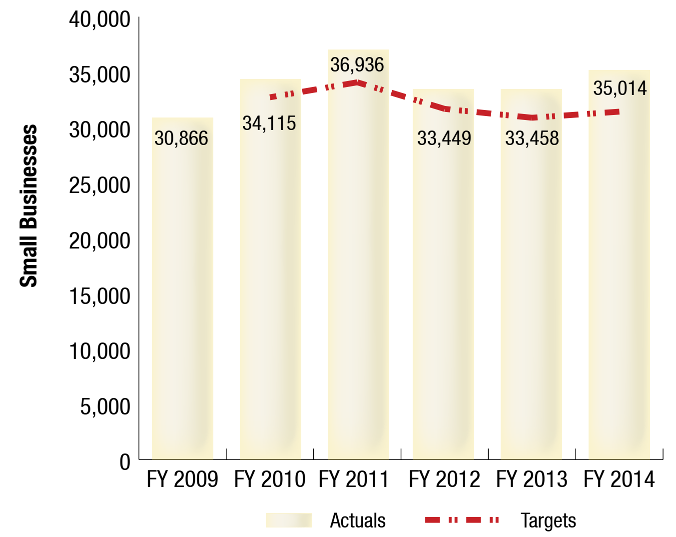
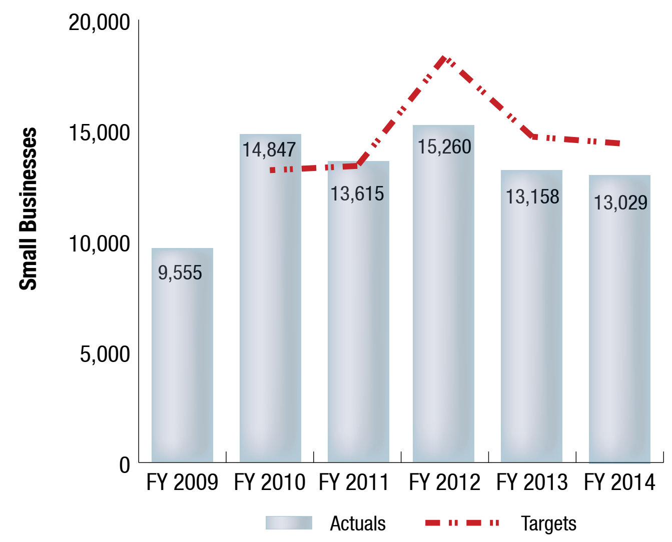


CHART XII SMALL BUSINESSES IN UNDERSERVED MARKETS ASSISTED BY 8(a) AND HUBZONES

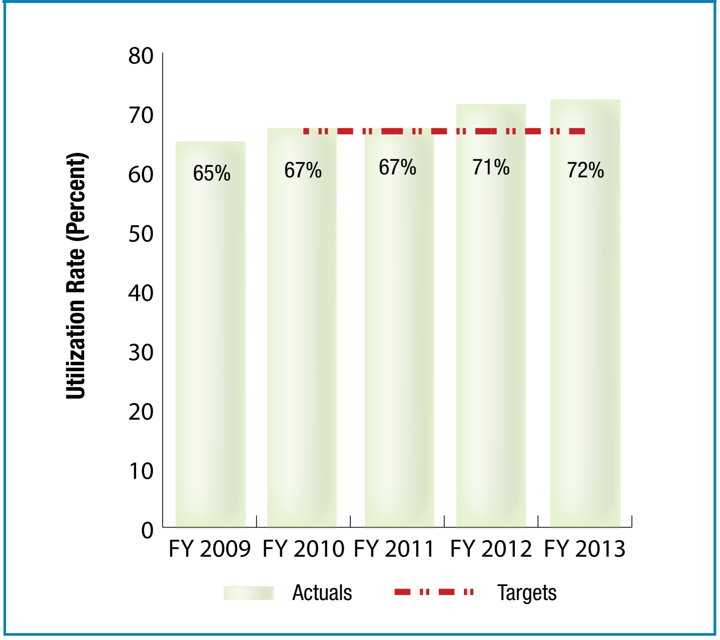


STRATEGIC OBJECTIVE 3.1: Streamline, simplify, and strengthen SBA's core programs and operations to ensure that they are high performing, effective, and relevant to the needs of the small business community.

Performance Goal: Award 68 percent of SBA contracts to small businesses in FY 2014.

Performance Analysis: The SBA met its small business utilization goal by awarding 72 percent of contracts (in FY 2013) totalling $76.8 million to small businesses (see **Chart XIII**) and far exceeded its sub-goals for women-owned, small disadvantaged, and small service-disabled veteran-owned businesses. Although final performance numbers are not yet certified or official for FY 2014, the SBA reached its small business utilization goal of 68 percent, as well as each of the small business utilization rate sub-goals for contract awards. The SBA was able to exceed the small business utilization rate by maintaining a default Agency position of awarding contracts to small business concerns and only resorting to large vendors when all small business options were exhausted.

CHART XIII SBA SMALL BUSINESS UTILIZATION RATE

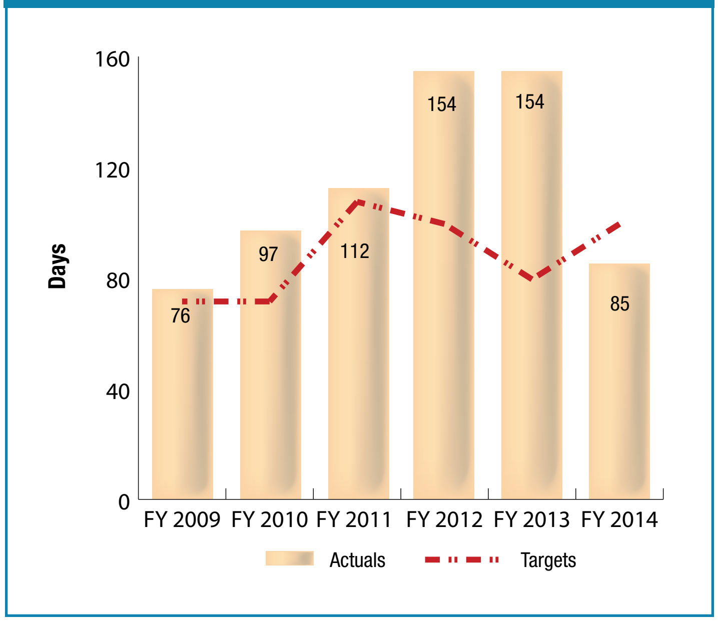


STRATEGIC OBJECTIVE 3.2: Invest in the Agency's employee recruitment, hiring, training, work-life programs, and performance management so staff is engaged to more effectively serve small businesses.

Performance Goal: Ensure that the average time to hire will be less than 100 days in FY 2014.

Performance Analysis: In FY 2014, the SBA lowered its average number of days to hire by 45 percent from FY 2013 and exceeded its FY 2014 target of 100 days by 15 percent (see **Chart XIV**). Fewer days to hire ensures SBA's competitiveness in recruitment efforts and ability to hire highly qualified individuals. Achievement of this goal is due to efforts initiated under "HR Stat 2.0." The initiative includes strategic redesign efforts such as reviewing existing business processes, determining future workforce needs, and performing position description updates to streamline recruitment decisions for both managers and staff in the Office of Human Resources Solutions.

CHART XIV AVERAGE NUMBER OF DAYS TO HIRE



Operational Portfolio Analysis and Future Projections

The Small Business Administration is the taxpayers' custodian of a small business loan guaranties and direct loans portfolio of $114.5 billion. During FY 2014, the portfolio grew by $4.7 billion, or 4.3 percent. Since existing loans are continually being paid, this growth implies that SBA's lending during FY 2014 was significantly greater than the $4.7 billion reflected in the portfolio growth. The Agency's 7(a) portfolio expanded by $4.5 billion, and thus accounted for the vast majority of the overall portfolio's growth. SBA's 504 portfolio expanded by $0.3 billion, and its SBIC portfolio grew by $0.5 billion. The Agency's Disaster and All Other portfolios declined $0.4 billion and $0.2 billion, respectively. From FY 2008 through FY 2014, nearly all (99 percent), of the portfolio's cumulative $26.3 billion growth came from 7(a), 504 and SBIC programs (see **Chart XV**).

New Guarantied Loans

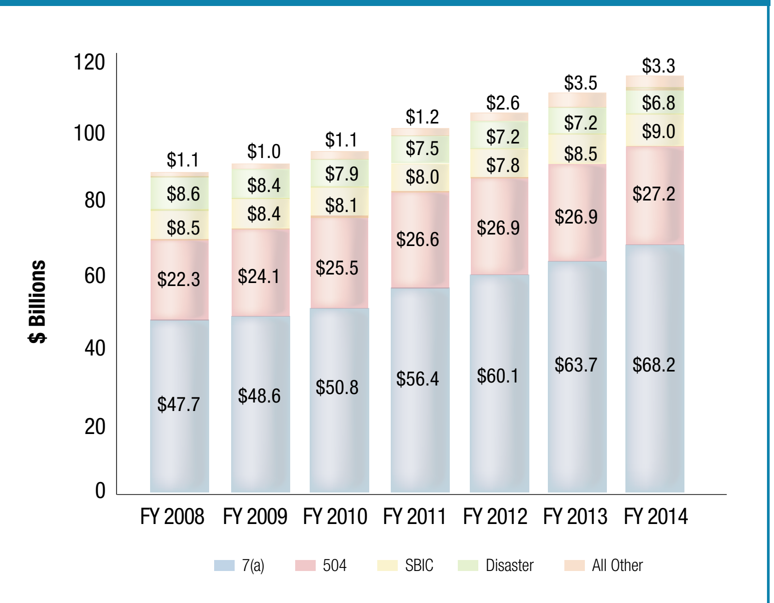
Three primary factors contributed to the loan guaranty portfolio's recent growth in outstanding balances:

Continuous Growth in the Economy – Real Gross Domestic Production (RGDP) in the United States grew at an average annual rate of 2.2 percent during 2012-2014. The first half of 2014 experienced a volatile but still positive economic environment, with first quarter RGDP posting a negative 2.1 percent annual growth rate, and second quarter RGDP posting a 4.6 percent annual growth rate. This rise in RGDP increased revenues and profits at all firms, small and large, which in turn increased their demand for credit.

Increase in Business Financial Stability – Corporate profits, reaching record highs in FY 2013, are the primary factor determining a business's overall financial strength, including its ability to incur more debt. Data indicate that gains in corporate profits have been broadly distributed across firms of all sizes, including small firms. The broadly distributed increases in corporate profits allowed existing firms to increase their borrowing.

Statutory Changes to SBA's Loan Programs – Two changes played a major role in the growth of SBA's loan portfolio. First, a series of legislative events permanently increased SBA loan limits and temporarily lowered fees and increased guaranties. These statutory changes increased SBA's capacity to supply greater credit to small businesses. The American Recovery and Reinvestment Act of 2009 temporarily lowered fees and raised guaranties for SBA's 7(a) and 504 loan programs, among many other provisions. Second, when the Recovery Act and the extensions ended in Q4 FY 2010, the Small Business Jobs Act of 2010 made permanent the higher loan limits and upwardly revised size standards that determine what qualifies as a small business. This in turn allowed the Agency to guarantee a greater dollar volume of loans which for some borrowers came in the form of larger loans (see **Chart XVI**). These same factors also contributed to the improvement in the portfolio's financial performance.

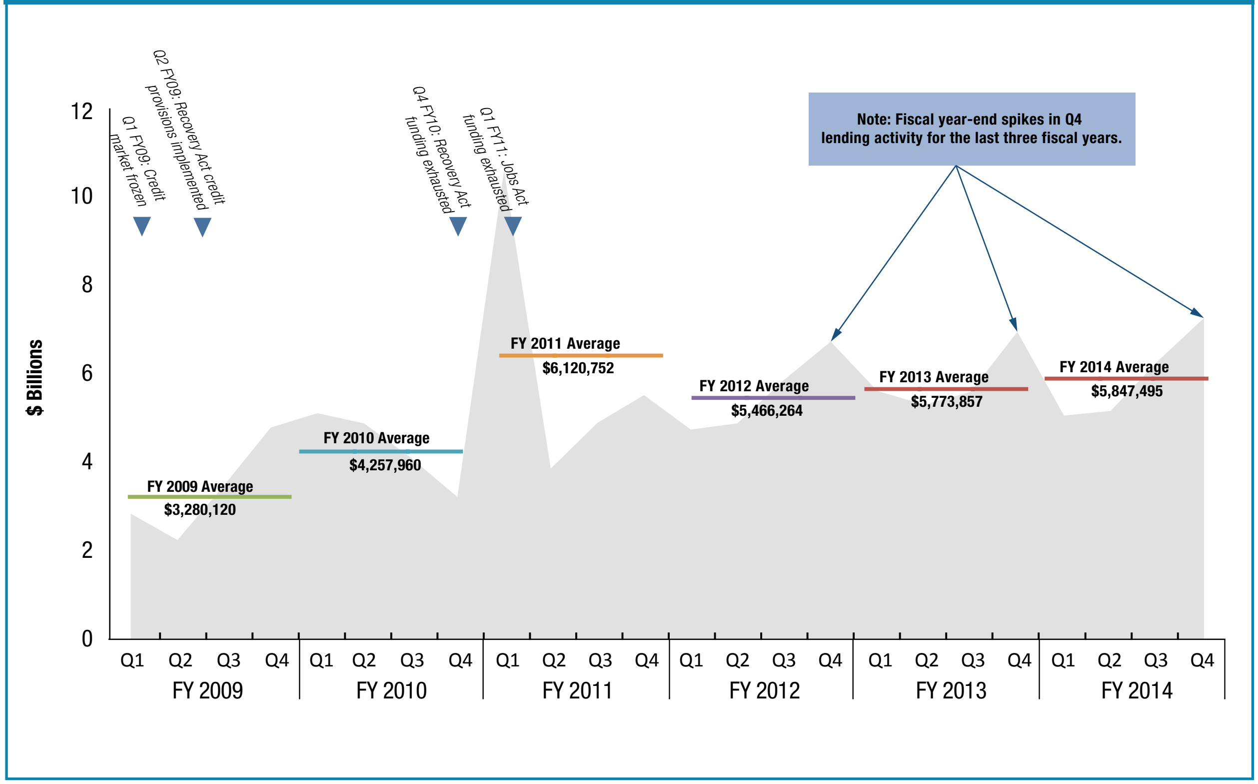
CHART XV MAKEUP OF SBA'S OUTSTANDING LOAN PORTFOLIO



New Direct Loans

In FY 2014, SBA's gross lending approvals for the Disaster Assistance program grew $332 million due to loans extended to businesses and individuals impacted by flooding in Colorado, Florida, and Illinois. A detailed review of the portfolio indicates the high volume in FY 2006 ($11.7 billion), which included Hurricanes Katrina, Rita, and Wilma along with an additional high volume in FY 2013 ($2.8 billion), which included Hurricane Sandy, represents nearly 55 percent of the portfolio's outstanding direct disaster loans. The SBA will continue to make disaster loans an impor-

CHART XVI QUARTERLY GROSS 7(a) AND 504 LOAN APPROVALS



tant recovery tool for businesses, homeowners, and renters who survive a disaster.

Portfolio Performance – Delinquencies

Delinquency rates (borrowers who are late on their payments) are a leading indicator of the Agency's charge-off rate (i.e. the rate of dollars spent to cover loans that defaulted). Thus, delinquency rates are a general indicator of the Agency's and taxpayers' future liabilities for these programs. A declining delinquency rate (see **Chart XVII**) is a positive indicator for the financial performance of any loan portfolio.

Modest economic growth, strong profit performance, and tighter lending standards by financial institutions during the past several years have reduced delinquency rates for all business loans, which have been steadily declining since reaching cyclical peaks in the latter part of 2009. A declining national unemployment rate, off of a peak of 10 percent in October of 2009, is a sign of a generally improving environment for small businesses. For those businesses that survived the recession, the improved hiring is a signal of business expansion and an increase in the local demand for goods and services, improving businesses' ability to repay debt obligations. Delinquency rates for the Agency's major loan programs followed this national downward trend. Delinquency rates for the 7(a) loan program declined from the 3.9 percent recorded during January 2009 to 1 percent recorded during July 2014. Delinquency rates for the 504 program likewise declined from the 5 percent recorded during February 2010 to 1 percent recorded during July 2014.

Portfolio Performance – Charge-Offs

At the end of FY 2014, the charge-off rates for most SBA primary loan programs, both guaranty and direct, are trending downward. A reduction in the charge-off rate across the bulk of the Agency's loan vehicles is a major positive factor for its diverse portfolio. The charge-off rates for the major loan programs are profiled here.

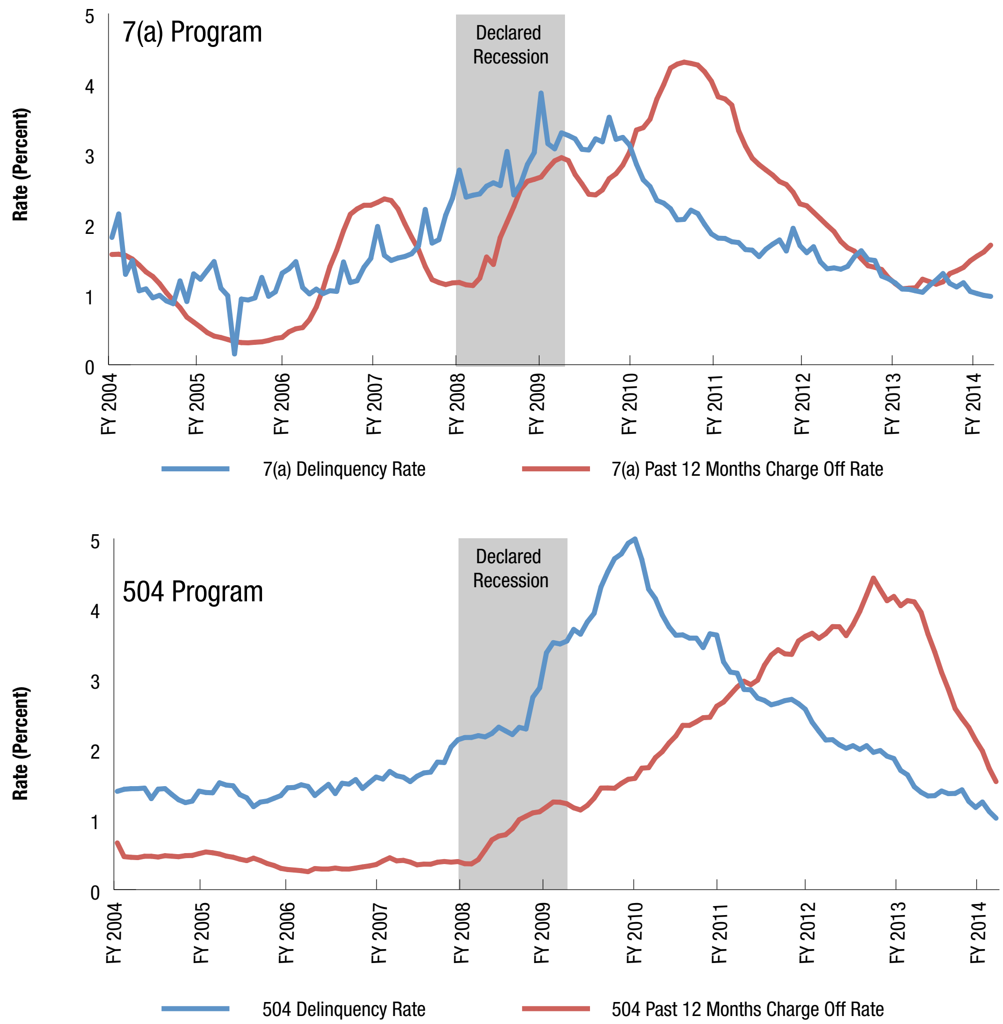
Charge-off rates for the 7(a) program experienced a pronounced decline during the FY 2010-2013 period, declining from 4.3 percent during the fourth quarter of 2010 to 1.1 percent in the fourth quarter of 2013, but then experiencing a minor uptick thereafter, posting a 1.7 percent rate in July of 2014 (see **Chart XVII**).

The charge-off rate for the 504 program experienced a continuous rise from the latter part of FY 2008 to the early part of FY 2013, peaking at 4.4 during January 2013, but then recorded a pronounced decline thereafter, dropping to 1.5 percent during July of 2014. This is not surprising since the 504 program is an economic development program with a commercial real estate focus. As such, recovery rates of defaulted 504 loans are, with some noticeable time lag, significantly impacted by the pricing trend in this sector. Real estate prices have been on the rise since the latter part of 2009, and as of August 2014 commercial real estate prices are at about 94 percent from the peak levels recorded during 2007.

The recent charge-off rate for the SBIC debenture program has fluctuated in a narrow band, reaching a high of 1.2 percent during FY 2011 and a low of 0.26 percent during FY 2014. The charge-off rate for the SBIC participating securities program experienced a steady rise during FY 2008-FY 2013, peaking at 10 percent in FY 2013, but then registered a pronounced drop during FY 2014 to 0.26 percent.

Quarterly information on the status of SBA's loan portfolio, including outstanding balances and approvals by loan program and purchase rates, is available on SBA's website at http://www.sba.gov/performance/loan.

CHART XVII DELINQUENCY AND CHARGE-OFF RATES FOR THE 7(a) AND 504 PROGRAMS BY FISCAL YEAR



ANALYSIS AND HIGHLIGHTS OF FINANCIAL STATEMENTS AND RESULTS

Highlights of Financial Results

(Dollars in Thousands)

As of September 30,		2014		2013	% Change
CONDENSED BALANCE SHEET DATA					
Fund Balance with Treasury	$	6,110,111	$	6,198,604	-1.43%
Credit Program Receivables and Related Foreclosed Property, Net		6,946,903		7,534,448	-7.80%
All Other Assets		127,237		113,118	12.48%
Total Assets	**$**	**13,184,251**	**$**	**13,846,170**	**-4.78%**
Debt		7,756,100		8,088,099	-4.10%
Downward Reestimate Payable to Treasury		1,637,283		1,116,192	46.68%
Liability for Loan Guaranties		2,044,509		2,987,263	-31.56%
All Other Liabilities		257,911		270,762	-4.75%
Total Liabilities		**11,695,803**		**12,462,316**	**-6.15%**
Unexpended Appropriations		1,692,804		1,753,736	-3.47%
Cumulative Results of Operations		(204,356)		(369,882)	44.75%
Total Net Position		**1,488,448**		**1,383,854**	**7.56%**
Total Liabilities and Net Position	**$**	**13,184,251**	**$**	**13,846,170**	**-4.78%**

For the Fiscal Year		2014		2013	% Change
STATEMENT OF NET COST BY STRATEGIC GOAL					
Goal 1: Growing Businesses and Creating Jobs					
Loan Subsidy Cost Including Reestimates	$	(1,267,469)	$	(378,654)	-234.73%
All Other Costs Net of Revenue		648,483		766,109	-15.35%
Goal 2: Serving as the Voice for Small Business		109,488		92,964	17.77%
Goal 3: Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses		25,830		5,908	337.20%
Costs Not Assigned		17,274		37,759	-54.25%
Net Cost of Operations	**$**	**(466,394)**	**$**	**524,086**	**-188.99%**
CONDENSED STATEMENT OF NET POSITION					
Beginning Cumulative Results of Operations	$	(369,882)	$	(907,005)	59.22%
Total Financing Sources		(300,868)		1,061,209	-128.35%
Less: Net Cost of Operations		(466,394)		524,086	-188.99%
Ending Cumulative Results of Operations	**$**	**(204,356)**	**$**	**(369,882)**	**44.75%**
Beginning Unexpended Appropriations	$	1,753,736	$	1,281,279	36.87%
Total Budgetary Financing Sources		(60,932)		472,457	-112.90%
Ending Unexpended Appropriations	**$**	**1,692,804**	**$**	**1,753,736**	**-3.47%**
Ending Net Position	**$**	**1,488,448**	**$**	**1,383,854**	**7.56%**
CONDENSED STATEMENT OF BUDGETARY RESOURCES					
Unobligated Balance Brought Forward	$	5,433,986	$	5,632,368	-3.52%
Other Budgetary Resources, Net		(577,710)		(473,129)	-22.10%
Appropriations (discretionary and mandatory)		1,274,707		2,649,756	-51.89%
Borrowing Authority (discretionary and mandatory)		762,945		1,520,370	-49.82%
Spending Authority from Offsetting Collections		3,932,731		4,730,229	-16.86%
Total Budgetary Resources	**$**	**10,826,659**	**$**	**14,059,594**	**-22.99%**
Obligations Incurred, Budgetary	$	1,661,198	$	2,882,329	-42.37%
Obligations Incurred, Nonbudgetary		3,453,214		5,743,279	-39.87%
Unobligated Balances, Available and Unavailable		5,712,247		5,433,986	5.12%
Total Status of Budgetary Resources	**$**	**10,826,659**	**$**	**14,059,594**	**-22.99%**

Analysis of Financial Results

The SBA prepares its financial statements as a critical aspect of ensuring the accountability and stewardship for the public resources entrusted to it. The financial statements are prepared in accordance with guidance issued by the Office of Management and Budget pursuant to the Chief Financial Officers Act of 1990. While these statements have been prepared from SBA's books and records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, they are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. government, a sovereign entity. One implication of this is that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and ongoing operations are subject to the enactment of future appropriations.

This Analysis of Financial Results references numbers in the Highlights of Financial Results that was derived from the Financial Statements and Notes in this report. The Operational Portfolio Analysis does not reference the financial statements, but rather it provides an operational analysis of SBA's credit programs. As a result, the definitions of the loan and guaranty balances in the Portfolio Analysis section may differ somewhat from the balances used in this Analysis of Financial Results. For example, for the 7(a) program the total amount of guarantied loans is used in the Portfolio Analysis, where only SBA's guarantied portion is used in the Analysis of Financial Results, as it ties to balances in the financial statements.

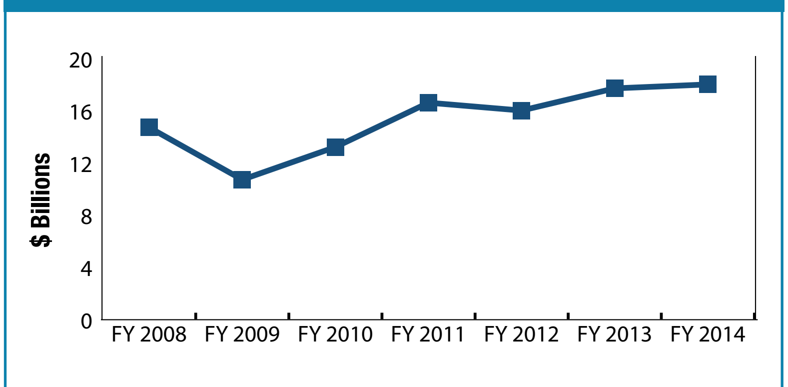
Background

The SBA is a major federal credit agency of the U.S. Government. The SBA had 3,128 employees including Disaster Full Time Equivalent employees in FY 2014. As a result only $0.9 billion of SBA's $10.8 billion budgetary resources in FY 2014 were for salaries and expenses, with the rest supporting SBA's credit programs. Budgetary resources when apportioned by the Office of Management and Budget are available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority and unobligated balances of budget authority provided in previous years. The loan financing funds record all the cash flow activity resulting from post 1991 direct loans and loan guaranties, and are not budgetary costs. The financing accounts are reported separately in the Budget of the United States Government and are excluded from the budget surplus/deficit totals.

The Federal Credit Reform Act of 1990 governs SBA's accounting for direct loans and loan guaranties made in FY 1992 and thereafter. Under FCRA direct loans outstanding are reported net of an allowance developed using the present value of forecasted cash flows in subsidy models that are approved by the Office of Management and Budget. A Liability for Loan Guaranties is reported also using subsidy models with forecasted cash flows from user fees and defaulted guarantied loans. SBA's FCRA accounting is discussed further in this section and in Notes 1 and 6A in the financial statements.

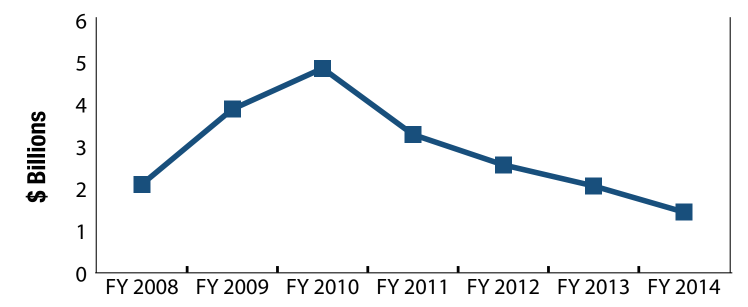
The portion of the outstanding principal guarantied by the SBA as of September 30, 2014 was $83.5 billion, an increase of 5.6 percent from the $79.1 billion guarantied at September 30, 2013 (see Note 6C in the financial statements). As shown in **Chart XVIII,** new guaranties disbursed by SBA participating banks during FY 2014 were $18.0 billion, a 1.7 percent increase compared to the FY 2013 figure of $17.7 billion. The $0.3 billion increase resulted from a $1.5 billion decrease in 504 Development Company Recovery Act loans, a $1.5 billion increase in 7(a) loans, a $0.4 billion increase in SBIC Debentures, and a net $0.1 billion decrease in other loan programs in FY 2014. The increase in FY 2014 disbursements and a reduction in purchases of guarantied loans contributed to the 5.6 percent increase in outstanding guarantied principal from the previous year.

CHART XVIII GUARANTIED LOANS DISBURSED



Credit program receivables for the SBA are comprised of business and disaster direct loans and defaulted business loans purchased per the terms of SBA's loan guaranty programs which are offset by an allowance for subsidy. An allowance for the subsidy cost of the gross loan receivable is recorded as a contra asset and the net asset is reported on the Balance Sheet. The subsidy allowance is determined by modeling the projected future cash inflows and outflows of SBA credit programs using discounted cash flow methodology. Loan losses, the costs of loan servicing, and loan interest rates are factors that affect the subsidy allowance.

CHART XIX PURCHASES OF GUARANTIED LOANS



SBA credit program receivables were valued at $6.9 billion in FY 2014 which was a decrease of $0.6 billion from FY 2013. The change in the credit program receivables resulted from a decrease in defaulted guarantied business loans of $0.3 billion and a decrease in direct disaster loans of $0.3 billion. The amount of defaulted guarantied loans decreased as collections and charge-offs exceeded new guaranty purchases, partially offset by a lower subsidy allowance amount. This net decrease is attributable to an improved economy in FY 2014. The amount of direct disaster loans decreased as collections and charge-offs exceeded new loans, partially offset by a lower subsidy allowance amount.

As reflected in **Chart XIX**, guarantied loan purchases decreased $0.6 billion in FY 2014. The decrease this year reflects the continuing recovery after the economic recession. The decrease in purchases this year did contribute in part to the decrease in the outstanding guarantied business loans receivable after including recoveries, expenses, and charge-offs in the loans purchased portfolio.

Financial Position

Assets

The SBA had total assets of $13.2 billion at the end of FY 2014, down 4.8 percent from FY 2013. Total assets decreased primarily due to a $588.0 million decrease in Credit Program Receivables and Related Foreclosed Property. This decrease was due to the amount of defaulted guarantied loans decreasing as the result of collections and charge-offs exceeding new guaranty purchases, as well as the amount of direct disaster loans decreasing as collections and charge-offs exceeded new loans.

Liabilities

The SBA had total liabilities of $11.7 billion at the end of FY 2014, down 6.2 percent from FY 2013. Liabilities consist primarily of the Liability for Loan Guaranties, Downward Reestimate Payable to Treasury, and Debt with Treasury. The Liability for Loan Guaranties is the estimate of the net present value of the future amount the SBA will pay, net of fee collections, to liquidate expected purchases of guarantied loans under its guarantied loan programs. The Liability for Loan Guaranties decreased $0.9 billion due to the year-end downward reestimate of future costs for SBA's guaranty portfolio. The downward reestimate reflects the improvement in SBA's portfolio and the economic recovery.

The Downward Reestimate Payable to Treasury increased $0.5 billion due to the larger year-end accrual of the downward reestimates for the 504 program cohorts in FY 2014. Better than projected FY 2014 loan performance across all cohorts was the primary reason for the larger downward reestimate for FY 2014 compared to FY 2013.

Debt with Treasury decreased $0.3 billion due to the decrease in disaster loan disbursements in FY 2014. Note 9 to the financial statements provides additional detail on SBA debt with Treasury.

Net Position

Cumulative Results of Operations is the accumulative difference between expenditures and financing sources since the inception of the Agency. This negative balance decreased $0.2 billion because unfunded upward subsidy reestimates at year-end for almost every program were less this year than last year. Upward subsidy reestimates determined at year-end are funded in the following year when they are received.

Unexpended appropriations decreased $61.0 million this year primarily because the amount of appropriations received was significantly less than the appropriations received in FY 2013 for business, disaster, and administrative activity. This affected Budgetary Financing Sources and the Ending Net Position.

Net Costs of Operations

The Net Costs of Operations primarily reflects the costs of SBA credit programs subsidy expenses during the year for new loans and subsidy reestimates at year-end. The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guarantied loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The SBA receives appropriations annually to fund its credit programs. When loans are disbursed, the SBA records subsidy expense. In accordance with the Federal Credit Reform Act, the subsidy costs are reestimated annually. Reestimates update original loan program cost estimates to reflect actual experience and changes in forecasts of future cash flows. Increased reestimated costs are funded in the following year by permanent indefinite budget authority, while decreased costs are returned by the SBA to the U.S. Treasury.

The reestimated costs for almost every program decreased in FY 2014 resulting in a net downward reestimate which affected Strategic Goal 1 costs. Those subsidy reestimates were the largest components of the change (net decrease) in the Agency's net cost. **Chart XX** reflects the decreases in the subsidy reestimates for the Guarantied Business and Direct Disaster loan programs in FY 2014.

There was a downward reestimate in the 7(a) programs. The downward reestimate of $0.4 billion was due mostly to lower than average purchases during FY 2014 that decreased the overall purchase curve, in turn decreasing purchase projections in future years and contributing to the downward reestimate for FY 2014.

The Recovery Act, and 504 Jobs Act programs had a significant downward reestimate of $0.8 billion due to better than projected FY 2014 loan performance. Further detail on subsidy reestimates can be found in Note 6I to the financial statements in the Financial Reporting section of this report.

The SBIC Participating Securities and Debenture programs had a downward reestimate of $0.1 billion in FY 2014 that was due mostly to better than projected loan performance. Actual recoveries were higher than projected, and actual default purchases were lower than projected in FY 2014. The FY 2014 loan performance contributed to updated model assumptions, which resulted in decreased cash outflow projections.

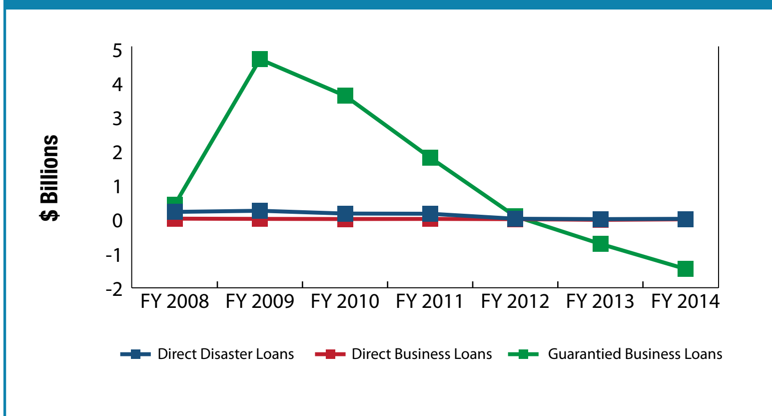
Budgetary Resources

Total Budgetary Resources of $10.8 billion decreased $3.2 billion in FY 2014. This decrease is the net result of previous year unused appropriations available this year and the other factors in the Highlights table and discussed here. Other Budgetary Resources, Net decreased by $0.1 billion in FY 2014. This decrease is attributable to a larger repayment of borrowings from prior year balances, offset with a large increase in prior year recoveries in FY 2014.

Appropriations (discretionary and mandatory) decreased $1.4 billion in FY 2014. As shown in **Chart XXI** the decrease was the combination of the decrease in the amount of appropriations needed to fund SBA's upward credit subsidy reestimates, as well as a reduction in the need for subsidy to fund the Agency's major loan programs in FY 2014.

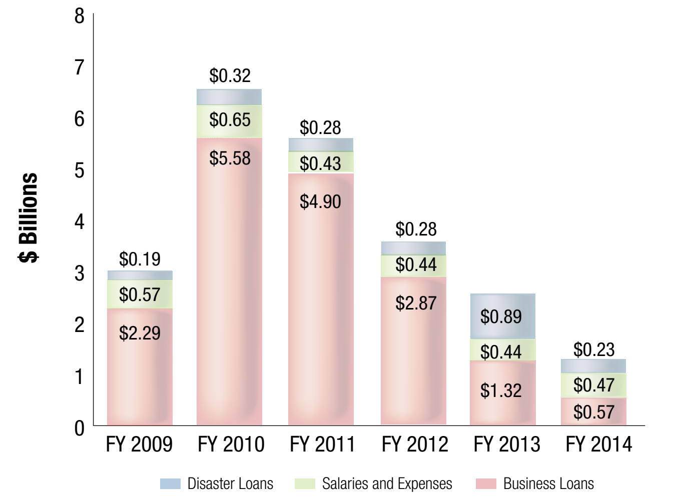
Borrowing Authority decreased $0.8 billion in FY 2014. Disaster borrowing authority initially granted to the SBA was $1.0 billion, but the SBA withdrew $0.8 billion at year-end FY 2014 as it was not needed to fund future credit program operations.

CHART XX CREDIT PROGRAM SUBSIDY REESTIMATES



Spending Authority from Offsetting Collections decreased $0.8 billion in FY 2014. Lower current year collections were used to repay borrowings in FY 2014, tending to increase the ending balance. This was offset by a significant decrease in FY 2014 collections received for subsidy, as well as reduced year-end subsidy reestimates this year.

CHART XXI APPROPRIATIONS



Status of Budgetary Resources

The Total Status of Budgetary Resources of $10.8 billion decreased $3.2 billion in FY 2014. Budgetary obligations decreased by $1.2 billion in part because subsidy reestimates decreased in FY 2014 for the guarantied business programs, and because the subsidy rates for SBA's loan programs decreased in FY 2014. Nonbudgetary obligations decreased $2.3 billion due to the decrease in obligations related to financing fund reestimates, loan making, and purchases of guarantied loans.

Unobligated balances at September 30, 2014 and 2013 were $5.7 billion and $5.4 billion which include $3.7 billion and $4.0 billion of unavailable unobligated balances. These balances were unavailable because they were unapportioned by OMB. The SBA accumulates the majority of unobligated balances in its nonbudgetary financing accounts ($4.3 billion in FY 2014 and $4.1 billion in FY 2013) from subsidy estimates and reestimates that are used primarily to pay default claims in future years.

DID YOU KNOW

SBA 7(a) lending reached almost **52,044 loans** for more than **$19 billion,** surpassing FY 2013 by 12.18 percent in number of loans and 7.4 percent in dollar amount.

ANALYSIS OF SBA'S SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Internal Control Environment

The SBA believes that maintaining integrity and accountability in all programs and operations is critical for good government. The ability to demonstrate consistent responsible stewardship over assets and resources is a sign of responsible leadership. SBA's commitment to integrity and ethical values with an effective system of internal controls ensures that every employee remains dedicated to the efficient delivery of services to customers and maximizes desired program outcomes. The SBA has developed and implemented management, administrative, and financial system controls to reasonably ensure that:

- programs and operations achieve intended results efficiently and effectively;
- resources are used in accordance with the mission of the Agency;
- programs and resources are protected from waste, fraud, and mismanagement;
- program and operation activities are in compliance with laws and regulations; and
- reliable, complete, and timely data are maintained and used for decision-making at all levels.

Each year, the SBA conducts an assessment of internal control as required by the Federal Managers' Financial Integrity Act of 1982. The FMFIA also requires that the assessment results be reported to the President and the Congress in a statement of assurance. The SBA Administrator provides the statement of assurance based on the self-assessment of program managers, internal control reviews, and audits and reviews done by the Government Accountability Office, and SBA's Office of the Inspector General. During FY 2014, SBA's Office of Internal Controls (OIC) developed a self-assessment checklist to specifically assist district office management in documenting the adequacy of controls within their area of responsibility. Other offices continued to use a checklist developed in the past that is periodically updated to reflect current SBA control systems.

In support of internal control assessments, the OIC oversees the requirements of the Office of Management and Budget's revised Circular No. A-123, Appendix A, Internal Control Over Financial Reporting. SBA's Senior Assessment Team (SAT), chaired by the Chief Financial Officer and comprised of SBA managers from the major programs and support offices directed compliance with the circular. Key business processes impacting financial operations and the financial statements were reviewed by OIC. Based on the evaluation of 15 business processes, the OIC identified a number of deficiencies in the internal control over financial reporting, including several in SBA's key business processes. Additional reviews by SAT members covered some business processes that had no material impact on the financial statements, but did present some potential for risk or exposure to the Agency. The SAT evaluated the review findings and determined that none reached the level of material weakness.

Starting the fiscal year with the federal government shutdown followed by continued budgetary restrictions, the SBA adopted pro-active budgetary measures to ensure mission coverage. SBA management developed strategies to minimize risks while maintaining sound controls.

This year, the SBA continued to have a significant deficiency in information technology security controls, to include access controls and identity management. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting. To address these deficiencies, the SBA obtained professional IT products and services that are being utilized to facilitate process improvements and for operational upgrades needed to correct the deficiencies. The Agency has plans in place to take additional corrective action to further improve these areas in FY 2015.

The SBA took additional actions that focused on implementing an Information Security Continuous Monitoring (ISCM) strategy. SBA's preliminary ISCM strategy is designed to provide a roadmap that focuses on a near-real-time approach to SBA risk remediation, operational awareness, and long-term risk management. The SBA ISCM goals and objectives include, but are not limited to:

- implementing new operational IT capabilities in the areas of cybersecurity, network operations, and Helpdesk activities;
- improving SBA's IT risk posture and enable the SBA to operate within a known and defined risk tolerance threshold by integrating System Development Life Cycle (SDLC) processes with current vulner-

ability data and assignment of risk. (e.g., Technical Review Board, Architecture Review Board, Change Control Boards, etc.);

- streamline SDLC activities by automating tasks to support Security Assessment and Authorization workflow requirements in order to reduce impacts on system owners;
- enable staff to effectively manage SBA's IT systems in near-real-time and respond to information system threats; and
- incorporate real-time vulnerability data with SBA's operational data to support more informed IT risk based decisions.

Financial Management Systems Strategy

Financial management systems at the SBA are designed to support effective internal control, produce reliable, timely financial information, and ensure cost effective loan guaranty processing. Management remains focused on robust financial management systems that improve SBA's ability to comply with laws and regulations, provide timely and accurate data to support management analysis and decision-making, enable the Agency to keep pace with its lending partners, and effectively use automation to achieve operational efficiency.

As demonstrated throughout this Agency Financial Report, the SBA seeks to comply with all federal financial management system requirements and there have been no deficiencies identified under the Federal Financial Management Improvement Act of 1996.[1]

The SBA completed a series of incremental improvement projects designed to modernize the financial management systems to improve financial system controls, reduce sustainment costs, provide additional functionality for external lending partners, and prolong system useful lives. These projects include the migration of the systems to more current technology platforms and relocation to modern data centers that provide expanded capability for continuity of operations.

In addition to modernization of the financial system platforms, the incremental improvement projects added missing functionality to the financial systems, building improved integration between the systems, improving consistency of data, enhanced reporting capability, and improving SBA's automation of funds control for loan programs and loan subsidy.

The incremental improvement projects enhance SBA's financial system controls over lending programs and provide for improvement in accessibility to common information, financial and budget management, and financial reporting. Core financial systems at the SBA are comprised of three systems operated and managed by the offices of the Chief Financial Officer and Capital Access. The systems include:

- *Oracle Federal Financials* – Upgraded to the most current release, this Commercial Off-The-Shelf (COTS) package is used for budget execution and management for administrative activity.
- *Loan Systems* – SBA-built systems used to support the lifecycle of loan guaranty processing, loan program funds control, management and accounting for loan servicing and loan related expenses.
- *Financial Management System (FMS)* – SBA-built system used to consolidate administrative and loan activity, manage cash and control funds, and provide financial reporting.

1 The purpose of the Federal Financial Management Improvement Act of 1996 (FFMIA) is to advance federal financial management by ensuring that federal financial management systems provide accurate, reliable and timely financial management information to the government's managers. Core components include applying uniform accounting standards across the federal government; full disclosure of all federal programs and activity; increasing the accountability, creditability, performance, productivity and efficiency of federal financial management; establishing financial systems to control the cost of federal government; and increasing the capability of agencies to monitor budget execution by comparing spending to results of activities. Compliance with the FFMIA provides the basis for the continuing use of reliable financial management information by program managers, and by the President, the Congress, and the public. (Office of Management and Budget, http://www.whitehouse.gov/omb/financial_ffs_ffmia).

Management Assurances: FMFIA and FFMIA Assurance Statement for FY 2014

The Small Business Administration continued to strengthen internal controls over its programs and operations during FY 2014. Creating and sustaining a culture of responsibility and accountability while eliminating and preventing waste, fraud, and abuse is critical to meeting our mission at the SBA. I am pleased to report that the SBA continues to achieve its internal control objectives.

An example of SBA's commitment to internal control objectives occurred during the lapse of appropriations on October 1, 2013. In response to this event, the SBA conducted an orderly shutdown of operations of all its offices with the primary exception of Disaster Assistance. When the federal government passed appropriations and re-opened on Thursday, October 17, 2013, the SBA restarted operations and successfully continued with its mission objectives without sacrificing internal control practices.

SBA management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objective of the Federal Managers Financial Integrity Act (FMFIA). The SBA conducted its assessment of internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular No. A-123, Management's Responsibility for Internal Controls. Agency managers have issued assertions to me as to the status of their FY 2014 internal controls in their areas of responsibility. These assertions are supported by internal testing, checklists, and other management reviews. Although a few Agency managers reported some operating deficiencies, these were not of a material nature. Based on the results of these evaluations, I can provide reasonable assurance that internal controls over operations and compliance with applicable laws and regulations, as of September 30, 2014, were operating effectively and no material weaknesses were identified in the design or operation of those internal controls. Further, the Agency's financial management systems conform to the principles, standards, and related requirements prescribed by Section 4 of FMFIA.

The SBA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular No. A-123. Based on the results of this evaluation, I can provide reasonable assurance that internal control over financial reporting was operating effectively and no material weaknesses were identified in the design or operation of internal control over financial reporting for FY 2014.

SBA's independent auditor issued an unmodified opinion on the Agency's FY 2014 financial statements for the tenth year in a row. However, the auditor identified one instance of non-compliance with applicable laws and regulations as of September 30, 2014. Specifically, due to ongoing issues with the Agency's legacy mainframe loan information system, not all co-borrowers and guarantors on charged-off 7(a), 504 and disaster loans were referred to the Department of Treasury for debt collection as required by the Debt Collection Improvement Act (DCIA).

The SBA has a DCIA Compliance Team made up of representatives from the Office of Capital Access and the Office of the Chief Financial Officer, who work together to identify and resolve problems pertaining to the implementation of the DCIA. As a result of their efforts, the SBA has implemented improvements to support the ongoing referral of defaulted loans, including referrals of co-borrowers and guarantors, to Treasury. In FY 2014, the team conducted data analysis and instigated system corrections to resolve issues with loans rejected by Treasury's system in previous years. Despite these improvements, the underlying system issues will likely continue to be a challenge for the Agency until the transition from the legacy mainframe to a web-based system is complete.

The Federal Financial Management Improvement Act (FFMIA) requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Standard General Ledger. Based on the FFMIA criteria, I can provide reasonable assurance SBA's financial management systems substantially comply with FFMIA for FY 2014.

Maria Contreras-Sweet
Administrator
November 17, 2014

SUCCESS STORY: Completing a Good Job on Time

Quality First Cleaning Contractors,
Fort Riley, Kansas

When **Byong Lee** started working as a custodial shift manager for a maintenance company at Fort Riley, Kansas in 1982, she had dreams of running her own business. Now, more than 30 years later, she successfully manages multiple federal and commercial contracts in Kansas and Missouri as owner of Quality First Cleaning Contractors.

A native of South Korea, Lee started Quality First Cleaning Contractors in 1999. She instills in her employees the pride that comes from completing a good job on time. "I learned this philosophy over the 30 plus years of work in the custodial industry. I believe that pride comes from providing the best possible service to my customers and will yield a long-term relationship with them." Lee strives to make sure her bid proposals are priced competitively and that she includes the labor and materials necessary to do a good job that is completed on time.

Lee applied for and was accepted into SBA's 8(a) business development program. She credits the program with helping her take the business to the next level. She also became HUBZone certified and was awarded a custodial/cleaning contract for the U.S. Army Reserve Center in Wichita before graduating from the 8(a) program. Since then, Quality First Cleaning Contractors has filled service contracts for custodial services for several facilities in Fort Riley, state and local governments, private sector companies, and the Social and Rehabilitation Services building in Junction City, Kansas.

Improper Payments Summary

The Improper Payments Information Act of 2002 (IPIA), its amendments, and OMB Circular No. A-123, Appendix C, Management's Responsibility for Internal Control: Requirements for Effective Measurement and Remediation of Improper Payment, requires agencies to review all programs and activities, identify those that are susceptible to significant erroneous payments, and estimate annually the amount of erroneous payments made in those programs. The Circular requires risk assessments at least once every three years to determine a program's susceptibility to improper payments, so the SBA performed 11 risk assessments during FY 2014 due to the expiration of the three-year cycle. The SBA also conducted 3 new risk assessments to comply with the Improper Payment Elimination and Recovery Improvement Act of 2010, which requires the assessment of payments to employees. The risk assessments did not identify any additional programs as susceptible to improper payments.

The SBA has five programs and activities that are subject to improper payment reporting: the 7(a) loan program, the Certified Development Company (504) loan program, the Disaster loan program, disbursements related to goods and services, and new in 2014, grant programs that received Hurricane Sandy Disaster Relief funds. The Small Business Investment Company program, a major credit program, retained approval from OMB for relief from reporting due to the low occurrence of improper payments as determined by several years of review and the continued low probability for improper payments as determined by the 2014 risk assessment.

The detection and remediation of improper payments is a priority for the Agency. SBA staff monitor and review for improper payments and are charged with implementing improvements that will reduce improper payment rates. The SBA also continually seeks opportunities to enhance and implement internal controls to reduce the risk for improper payments.

The Agency's primary concern in its improper payment reporting stems from administrative and documentation errors which are caused by the absence of supporting documentation necessary to verify the accuracy of a payment or errors caused by incorrect inputting, classifying, or processing of applications or payments. Detailed information concerning SBA's improper payment reviews and its efforts to reduce improper payments is presented in the Other Information section.

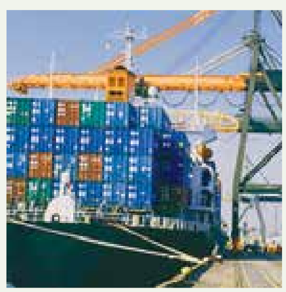
DID YOU KNOW

The SBA proudly recognizes SCORE on its 50th anniversary. With a network of 320 chapters and 11,000 volunteer mentors, SCORE has served more than **10 million** entrepreneurs and small business owners, providing mentoring, counseling, and coaching sessions.

Financial Reporting






SUCCESS STORY: Family Business Blends Old World Tastes with New World Innovation

Anita's Mexican Food Corporation,
San Bernardino, California

Anita's Mexican Food Corporation is a wholesale food manufacturer and co-packer. The company's origins date back to 1958 when patriarch Mauro Robles came from Mexico, earned citizenship, and sought to create new products that respected Old World tastes and traditions. Co-owners **Ricardo Robles, Pablo "Rene" Robles**, and **Jackie Robles** are SBA's *2014 California Small Business Persons of the Year.* They were nominated in recognition of their accomplishments in growing revenues, 112 percent over the past three years, and increasing employment by 129 positions.

What began as a flour tortilla manufacturer grew to become a major flour- and corn-based food manufacturing wholesaler and co-packer with more than 1,000 different products under eight trademarks. It specializes in tortilla and snack foods distributed nationally and internationally to Canada, South Korea, New Zealand, and throughout South America. Anita's Mexican Food Corporation was the first company to introduce organic corn tortilla chips in various types of organic corn. After a national firm flooded the market, the business innovated to become the first company in the organic, GMO-free, and gluten-free corn tortilla chip market. The company also operates a flour tortilla manufacturing facility in East Los Angeles, one of the largest employers in its area that produces more than 1.5 million tortillas a day.

Through 504 loan financing, the business completed a project that totaled over $9.7 million for real estate, improvements, and equipment.

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

November 17, 2014

I am pleased to submit the U.S. Small Business Administration's (SBA) Agency Financial Report for fiscal year 2014. An independent audit has earned the SBA an unmodified opinion with no material weaknesses.

The auditor identified one instance of non-compliance with applicable laws and regulations as of September 30, 2014. Due to ongoing technology challenges with the Agency's legacy mainframe information system, not all co-borrowers and guarantors and disaster charged-off loans were referred to the Treasury for cross-servicing collection of debt as required by the Debt Collection Improvement Act. Improvements in technology and processes continue to be implemented to support compliance on the referral of loans, and the SBA will make system modifications in accordance with an Agency plan to resolve the completeness and accuracy of referrals to Treasury.

Improvements continue to be made in the integration and operation of the Acquisition Division. In FY 2014, CFO staff met with each program office to develop an advanced acquisition strategy that coordinates procurement actions and budgetary requirements. These sessions proved particularly important to assist managers in navigating the FY 2014 continuing resolution budgets that segmented annual budgetary allocations. The SBA's acquisition planning has matured significantly through this collaborative process, and communication with program offices has greatly improved. By integrating the budget and acquisition process, program managers are better able to plan and execute. Throughout 2014, SBA's Acquisition Division has made considerable progress toward standardizing and improving SBA's procurement process. The SBA exceeded its overall FY 2014 small business contracting goal of 68 percent– the highest percentage goal in the government for small business contracts – as well as all socio-economic sub-goals. The SBA also received a procurement scorecard grade of "A" for the Agency's FY 2013 acquisition achievements.

The CFO's office also made great strides in the reduction of improper payments for disbursement for goods and services in FY 2014. The improper payment rate dropped by more than 3 percent to the current year rate of 8.4 percent. This year's rate brings the Agency below the mandatory compliance level.

A major challenge to SBA operations was the federal civilian government shutdown early in the fiscal year. SBA executed contingency operation plans to facilitate a smooth transition from one fiscal year to the next with a limited group of excepted employees. Despite this initial setback, the CFO's office continued to drive the Agency towards excellence in resource management by synchronizing budget, acquisition, and performance information to provide decision makers with the information they need to effectively execute Agency programs.

Another major process improvement has been SBA's implementation of the Quick Pay initiative to ensure the timely payment of invoices to prime contractors. I am proud to say that these process improvements resulted in more than $110 million in accelerated payments to SBA contractors during the June 2013 to July 2014 period.

The SBA continued its efforts to reduce Agency-wide spending on non-disaster travel in FY 2014 to comply with the President's Campaign to Cut Waste. Travel spending caps were set for each office, placing priority on mandatory and compliance trips. Through careful planning and management, the Agency was able to stay within its mandated travel cap.

This year, the SBA published its FY 2014-2018 Strategic Plan to guide the Agency over the next five years. The plan includes three strategic goals that focus on job growth and creation, small business advocacy, and effective internal management and risk mitigation. The strategic goals help guide the Agency's resource and management decisions. Each strategic goal contains objectives which are directly tied to performance both at the individual level and Agency-wide. This framework is essential to ensure that the SBA continues to play a key role in strengthening America's economy by providing tools to help grow businesses and create jobs.

For the eighth straight year the SBA has won the Certificate of Excellence in Accountability Reporting (CEAR) award. This award, presented by the Association of Government Accountants, is made to federal agencies following a rigorous, independent review against established standards for presentation. The award recognizes high-quality agency financial and performance reports that effectively illustrate and assess financial and program performance, accomplishments and challenges, cost and accountability. CFO Managers and staff work diligently to provide meaningful and high quality reporting information on behalf of the Agency, and the CEAR award is recognition of their efforts.

I also want to recognize the independent Audit and Financial Management Advisory Committee who, since 2004, has advised us in the financial reporting process and audit cycle, and made recommendations pertaining to our financial statement footnotes and the AFR prior to publication. I thank them for their support and dedication to continued improvement.

SBA's efforts to assist entrepreneurs and small business owners are especially critical to a healthy economy. Throughout America's history, small businesses have played the leading role in job creation. In fact, more than half of working Americans own or work for a small business and small businesses are responsible for two out of every three net new private sector jobs created over the past decade. My office is proud to be a part of this effort.

Sincerely,

Tami Perriello
Associate Administrator for Performance Management
and Chief Financial Officer (Acting)

AUDIT AND FINANCIAL MANAGEMENT ADVISORY COMMITTEE'S REPORT

The Audit and Financial Management Advisory Committee (the Committee) assists the Administrator in overseeing the U.S. Small Business Administration's (SBA's) financial operations. As part of that responsibility, the Committee meets with Agency management, the Agency's Inspector General, and its external auditors to review and discuss SBA's external financial audit coverage, the effectiveness of SBA's internal controls over its financial operations, and its compliance with certain laws and regulations that could materially impact SBA's financial statements. SBA's external auditors are responsible for expressing an opinion on the conformity of SBA's audited financial statements with the U.S. generally accepted accounting principles. The Committee reviews the findings of the Inspector General and external auditors, and SBA's responses to those findings, to ensure that SBA's plan for corrective action includes appropriate and timely follow-up measures. In addition, the Committee reviews the draft Agency Financial Report (AFR), including its financial statements, and provides comments to management who has primary responsibility for the AFR. The Committee met formally once during the year and once via telecom with respect to these responsibilities on FY 2014 financial management and reporting. During the formal meeting the Committee met with the Inspector General and external auditors without SBA management being present and discussed with the external auditors the matters that are required to be discussed by generally accepted auditing standards. Nothing came to our attention as a result of these discussions to indicate changes were needed to the financial statements and notes thereto that are included in the FY 2014 AFR.

Edward J Mazur

Edward J. Mazur
Chairman
Audit and Financial Management Advisory Committee

INSPECTOR GENERAL'S AUDIT REPORT

U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416

TRANSMITTAL MEMORANDUM
Report No. 15-02

Date: November 17, 2014

To: Tami Perriello
Acting Chief Financial Officer

From: Troy M. Meyer Troy M. Meyer
Assistant Inspector General for Auditing

Subject: *Independent Auditors' Report* on the SBA's FY 2014 Financial Statements

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit the U.S. Small Business Administration's (SBA) consolidated financial statements for fiscal year (FY) 2014, ending September 30, 2014. This audit is an annual requirement of the Chief Financial Officers Act of 1990, and was conducted in accordance with the *Generally Accepted Government Auditing Standards*; the Office of Management and Budget Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*; and the U.S. Government Accountability Office's *Financial Audit Manual* and *Federal Information System Controls Audit Manual.*

The attached independent auditor's report presents an unmodified opinion on the SBA's consolidated financial statements for FY 2014. Specifically, KPMG reported that:

- The financial statements were fairly presented in all material aspects in conformity with U.S. generally accepted accounting principles.
- There were no material weaknesses in internal control.
- There is a significant deficiency related to the SBA's information technology security controls, which has been identified in the past.
- There is one instance of noncompliance with laws and regulations related to the Debt Collection Improvement Act of 1996, which also has been reported in the past.

Details regarding KPMG's conclusions are included in the "Compliance and Other Matters" section, and Exhibits I and II to this report. Within 30 days of this report, KPMG expects to issue a separate letter to SBA management regarding other, less significant matters that came to its attention during the audit.

We reviewed a copy of KPMG's report and related documentation and made necessary inquiries of their respective representatives. Our review was not intended to enable us to express—and we do not express—an opinion on the SBA's financial statements, KPMG's conclusions about the effectiveness of internal controls, or its conclusions about the SBA's compliance with laws and regulations. However, our review disclosed no instances where KPMG did not comply, in all material respects, with the *Generally Accepted Government Auditing Standards*.

We provided a draft of KPMG's report to the SBA's Acting Chief Financial Officer, who concurred with its findings and recommendations and agreed to implement the recommendations. The Acting Chief Financial Officer's comments are attached as Exhibit III to this report.

We appreciate the cooperation and assistance of the SBA and KPMG. Should you or your staff have any questions, please contact me at (202) 205-7390 or Jeffrey R. Brindle, Director, Information Technology and Financial Management Group at (202) 205-7490.

Attachment

INDEPENDENT AUDITORS' REPORT ON FY 2014 FINANCIAL STATEMENTS

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General
United States Small Business Administration:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Small Business Administration (SBA), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

The SBA's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Small Business Administration as of September 30, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Message from the Administrator, Other Information, and the information on pages 35 to 39 of the *Agency Financial Report,* are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2014, we considered the SBA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of the SBA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify a combination of certain deficiencies in internal control, described in Exhibit I, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SBA's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02. Specifically, our audit results noted a noncompliance with the *Debt Collection Improvement Act of 1996*. Further details of the noncompliance are described in Exhibit II.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which the SBA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

SBA's Response(s) to Findings

The SBA's response to the findings identified in our audit is described in the accompanying Exhibit III. The SBA's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the SBA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 17, 2014

Exhibit I

U.S. Small Business Administration

Significant Deficiency

Improvement Needed in Information Technology Security Controls

During the FY 2014 financial statement audit, we found that the U.S. Small Business Administration (SBA) implemented corrective actions on some of the prior year findings; however, a number of conditions persisted in FY 2014 that reduced SBA's ability to effectively manage its information system risk. As a result, collectively, these conditions present a significant deficiency in SBA's internal control environment.

In an effort to provide additional clarity to SBA management with respect to the corrective actions required, we enhanced our prior year recommendations where issues persisted in FY 2014, and issued additional recommendations for the new control deficiencies identified. In the sections below, we distinguish between recurring conditions and related recommendations, and those that were newly identified in FY 2014. We have omitted some technical details from the conditions and recommendations due to the sensitivity of the information. These details were communicated to management through Notices of Findings and Recommendations throughout the audit.

We have summarized the Information Technology (IT) control deficiencies that we noted during the FY 2014 audit below, and have organized them by the following general IT control objectives: logical and physical access controls, application change management, system configuration management, and contingency planning.

Logical and Physical Access Controls

An integral part of the effectiveness of an organization's security program management efforts should be to ensure that logical and physical access controls provide reasonable assurance that IT resources, such as data files, application programs, and IT-related facilities/equipment, are protected against unauthorized modification, disclosure, loss, or impairment.

Our audit found that the following control deficiencies identified in the prior year(s) persisted in FY 2014:

- User accounts to the network and some financial systems were not properly authorized.
- User accounts to the network and some financial systems were not recertified in accordance with SBA policy.
- The principle of "least privilege" for user/service accounts with network administrator privileges was not enforced.
- User accounts to the network and some financial systems were not disabled or removed promptly upon personnel termination.
- The employee exit clearance and contractor off-boarding processes were not standardized to ensure that access to SBA's network and financial systems was timely removed upon separation.
- Security settings for the network were not enforced for all organizational units.
- Processes for consistently and effectively reviewing audit logs for the network and financial systems were not implemented.
- A process for approving, administering, and reviewing physical access to the Headquarters (HQ) Data Center had not been defined.

I-1

Exhibit I

U.S. Small Business Administration

Significant Deficiency

- Remote access to SBA information systems was not configured and provisioned in accordance with SBA policy.

In addition to the matters above, we noted the following additional control deficiency during our FY 2014 audit:

- Known password for the network did not meet SBA standards for password strength and complexity.

Recommendations – Logical and Physical Access Controls:

We have issued the following recommendations to address the repeat control deficiencies listed in the section above.

We recommend that the Chief Information Officer (CIO) coordinate with SBA program offices to:

1. Implement and monitor procedures to ensure that access is appropriately granted to employees and contractors, consistent with the conditions on their access forms after all approvals have been obtained.
2. Implement procedures to ensure that user access, including user accounts and associated roles, is reviewed on a periodic basis consistent with the nature and risk of the system, and any necessary account modifications be performed when identified. In addition, implement the principle of "least privilege" for user and service accounts.
3. Grant elevated network privileges per business needs only and enforce the concept of least privilege or implement mitigating controls to ensure that activities performed using privileged network accounts (including service accounts) are properly monitored.
4. Improve SBA's administration of logical system access by taking the following actions:
    - Implement an effective off-boarding process and verify periodically that controls to remove logical access for separated employees from SBA systems are implemented and operating as designed;
    - Establish a process for the identification and removal of separated contractors in order to help ensure that access is timely removed upon contractor separation; and
    - Remove access to the general support systems and major applications (including development and test environments) timely when employees and contractors are terminated.
5. Enforce a network access security baseline(s) across the network that is consistent with SBA's security policy, Office of Management and Budget directives, and United States Government Configuration Baseline requirements.
6. Improve SBA's information system logging and auditing program, by taking the following actions:
    - Review and rationalize current audit and logging activities and capabilities to determine their effectiveness in addressing risks to systems and data;
    - Implement and enforce consistent and effective creation of audit records, capturing of relevant auditable events, auditing (i.e., manual or automated review of audit records) for specified

I-2

Exhibit I

U.S. Small Business Administration

Significant Deficiency

events, and automated alerting on specified events across SBA's infrastructure using a risk-based approach;

- Retain evidence of the audit log review; and
- Develop an agency-wide plan and schedule for implementation of the above recommendations.

7. Establish a process to review the list of individuals with HQ data center access permissions periodically, to ensure that only authorized personnel retain access to the HQ data center.
8. Improve SBA's remote access program by taking the following actions:
   - Ensure employees acknowledge compliance with security requirements prior to establishing a remote connection to SBA's network when teleworking or otherwise connecting remotely to SBA systems; and
   - Monitor compliance with Standard Operating Procedure (SOP) 90.47.3, *Information System Security Program* and the updated Teleworking SOP.

To address the newly identified logical and physical access control weakness:

We recommend that the CIO:

9. Ensure that sensitive passwords meet SBA standards for password strength and complexity.

Application Change Management

The integrity of information processing is dependent on the controlled management of changes to the software that controls the processing. Software change management is designed to reduce the risk of unauthorized or erroneous changes of software. Our audit found the following control deficiencies remain, that were identified in a prior year:

- The change management process for some financial applications did not sufficiently reduce the risk of an unauthorized change being made to the production environment. Specifically, the SBA did not review or compare system code to ensure only authorized changes had been made, and the audit log review process was not designed to detect unauthorized changes to application software.
- Segregation of duties were not enforced for one financial application. Additionally, detective controls to mitigate the risk of known segregation of duties issues for two financial applications did not operate for the full fiscal year.
- Required software changes for one financial subsystem were not implemented due to the ongoing code migration project which impacted SBA's compliance with the *Debt Collection Improvement Act of 1996* in that system. This issue was reported as a noncompliance matter in the "Compliance and Other Matters" section of our audit report.

I-3

Exhibit I

U.S. Small Business Administration

Significant Deficiency

Recommendations – Application Change Management:

We have issued the following recommendations to address the repeat control deficiencies listed in the section above, we recommend that the:

10. Associate Administrator of Capital Access (OCA), in coordination with the CIO, design and implement a combination of preventative and detective controls to address the issues and related risks in the condition above, and ensure an auditable trail of software changes is maintained to prevent and detect unauthorized changes to production programs.
11. Associate Administrator of Disaster Assistance (ODA) and Chief Financial Officer enforce segregation of duties for privileged users or perform mitigating controls to ensure that the risks associated with privileged access remain mitigated.
12. Associate Administrator of the OCA, in conjunction with the CIO, continue to review system protocols to determine if any other coding problems exist that may cause untimely referral of loans, and address outstanding system protocol issues from prior years.

System Configuration Management

The primary focus of an organization's system configuration management process should be to control the security configuration of its infrastructure including servers, databases, network equipment, security appliances, and security services. Without such controls, there is a risk that security features could be inadvertently, or deliberately, omitted or turned off, introducing risk into the IT environment.

Our audit noted that the following prior year control deficiency persisted in FY 2014:

- Numerous high- and medium-risk configuration and patch management vulnerabilities were noted in the network and infrastructure supporting certain financial systems.

Recommendations – System Configuration Management:

To address the repeat system configuration management condition above, we recommend that:

13. The CIO coordinate with SBA program offices to address the existing configuration and patch management vulnerabilities noted during our assessment to be in compliance with SBA policy and SBA Vulnerability Assessment Team (VAT) Internal Operating Procedures, Version 1.0. In addition, implement procedures to ensure the consistent implementation and monitoring of SBA approved security configuration baselines across SBA's workstations, servers, databases, network devices, and other security relevant appliances.

Contingency Planning

The focus of an organization's contingency planning program should be to provide reasonable assurance that information resources are protected and the risk of unplanned interruptions is minimized. Without such controls, there is a risk that data may be lost or that critical operations may not resume in a timely manner.

Our audit noted that the following prior year control deficiencies persisted in FY 2014:

- An alternate processing site for some financial systems and related support infrastructure had not been established.

Exhibit I

U.S. Small Business Administration

Significant Deficiency

In addition to the matter above, we noted the following additional control deficiency during our FY 2014 audit:

- Full backups for some of the financial systems and related support infrastructure were not retained in accordance with SOP 90.47.3.

Recommendations – Contingency Planning:

To address the repeat contingency planning condition above, we recommend that the CIO:

14. Design and implement procedures, resources, and controls to ensure the timely recovery of resources and systems in the event of a disaster or unexpected event.

To address the newly identified contingency planning control weakness, we recommend that the CFO, CIO and Associate Administrator of OCA:

15. Ensure that full backups for financial systems and related support infrastructure are retained in accordance with SBA policies.

I-5

Exhibit II

U.S. Small Business Administration

Compliance and Other Matters

Noncompliance with the Debt Collection Improvement Act of 1996

The *Debt Collection Improvement Act of 1996* (DCIA) assigns the U.S. Department of Treasury (Treasury) the responsibility for collecting delinquent debts, Government-wide. The DCIA requires Federal agencies to transfer their nontax debt over 180 days delinquent to the Treasury. During our testwork over loan charge-offs, we noted the SBA did not refer obligors (i.e., eligible principal borrowers, co-borrowers, and/or guarantors) to the Treasury for offset or cross-servicing at the time of charge-off, as required by the DCIA. Similar instances of noncompliance with the DCIA were reported in prior years. The SBA's noncompliance with the DCIA was the result of both manual errors and deficiencies in information technology controls. For additional discussion of the information technology aspects of this finding, see Exhibit I.

We recommend the Associate Administrator of the Office of Capital Access:

16. Conduct training to educate loan center staff on the proper steps to refer obligors to the Treasury and correct errors after the initial referral.
17. Reinforce the importance of retaining identifying information for all obligors.

II-1

Exhibit III

CFO Response to Draft Audit Report on FY 2014 Financial Statements

DATE: November 17, 2014

TO: Troy Meyer, Assistant Inspector General for Auditing

FROM: Tami Perriello, Associate Administrator for Performance Management and Chief Financial Officer (Acting)

SUBJECT: Draft Audit Report on FY 2014 Financial Statements

The Small Business Administration has received the draft Independent Auditors' Report from KPMG that includes the auditors' opinion on the financial statements and its review of the Agency's internal control over financial reporting and compliance with laws and regulations. The independent audit of the Agency's financial statements and related processes is a core component of SBA's financial management program.

We are pleased that the SBA has again received an unmodified audit opinion from the independent auditor with no material weaknesses. We believe these results accurately reflect the quality of the Agency's financial statements and our improved accounting, budgeting and reporting processes. As you know, the SBA has worked hard in past years to address the findings from our independent auditor. Our core financial reporting data and processes have further improved, and we are proud that the results of our efforts have been confirmed by the independent auditor.

The audit report includes a continuing significant deficiency in SBA's information technology controls. The SBA will continue to work on improvements in IT security. The SBA will track, monitor, and mitigate vulnerabilities in Agency systems. Furthermore, the SBA will clarify and strengthen detailed procedures required to ensure security access controls are in place to protect SBA data from unauthorized modification, disclosure, and loss.

The auditor reported again this year that the SBA is not compliant with the Debt Collection Improvement Act of 1996 related to timely referral of charged-off loans to the Department of the Treasury for its tax refund offset and collection programs. Although the SBA made improvements to correct systemic errors identified last year, the auditors again found instances of charged-off loans where co-borrowers and guarantors were not referred to Treasury. The SBA is working on procedures to correct this issue.

We appreciate all of your efforts and those of your colleagues in the Office of the Inspector General as well as those of KPMG. The independent audit process continues to provide us with new insights and valuable recommendations that will further enhance SBA's financial management practices. We continue to be committed to excellence in financial management and look forward to making more progress in the coming year.

FINANCIAL STATEMENTS AND NOTES

The U.S. Small Business Administration prepares its financial statements as a critical aspect of ensuring accountability and stewardship for the public resources entrusted to it. Preparation of these statements is also an important part of SBA's financial management goal of providing accurate and reliable information that may be used to assess performance and allocate resources.

SBA's management is responsible for the accuracy and propriety of the information contained in the principal financial statements and the quality of internal controls. The SBA prepares these financial statements from its books and records in accordance with generally accepted accounting principles in the United States as well as formats prescribed by the Office of Management and Budget.

The financial statements include the following reports.

The **Consolidated Balance Sheet** summarizes the assets, liabilities, and net position by major category as of the reporting date. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities resulting from transactions with the public.

The **Consolidated Statement of Net Cost** shows, by strategic goal, the net cost of operations for the reporting period. Net cost of operations consists of full program costs incurred by the SBA less the exchange revenues earned by those programs.

The **Consolidated Statement of Changes in Net Position** presents SBA's beginning and ending net position by two components – Cumulative Results of Operations and Unexpended Appropriations. It summarizes the change in net position by major transaction category. The ending balances of both components of net position are also reported on the Balance Sheet.

The **Combined Statement of Budgetary Resources** provides information about funding and availability of budgetary resources, and the status of those resources at the end of the reporting period. Data on the Combined Statement of Budgetary Resources is consistent with information reflected on the Report on Budget Execution and Budgetary Resources (SF 133), with the one exception of offsetting receipts. Offsetting receipts offset budget authority and outlays at the agency level in the Budget of the United States Government, but are not reflected in the SF 133. The SBA includes offsetting receipts in this statement for the purpose of reconciling outlay information presented in the Budget of the United States Government.

The **Notes to the Financial Statements** provide information to explain the basis of the accounting and presentation used to prepare the statements and to explain specific items in the statements. They also provide information to support how particular accounts have been valued and computed.

The **Required Supplementary Information** presents a Combining Statement of Budgetary Resources report by principal functional area.

The **Required Supplementary Stewardship Information** provides information on SBA's investment in human capital that supports the increase or maintenance of national economic productivity capacity through education and training programs.

U. S. Small Business Administration

Consolidated Balance Sheet

as of September 30, 2014 and 2013

(Dollars in Thousands)

	2014	2013
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	$ 6,110,111	$ 6,198,604
Advances (Note 1)	28,173	16,523
Total Intragovernmental Assets	6,138,284	6,215,127
Assets - Public and Other		
Cash (Note 3)	1,264	3,976
Accounts Receivable, Net (Note 5)	83,816	84,097
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	6,946,903	7,534,448
General Property and Equipment, Net (Note 7)	4,729	6,173
Advances (Note 1)	9,255	2,349
Total Assets - Public and Other	7,045,967	7,631,043
Total Assets	**$ 13,184,251**	**$ 13,846,170**
LIABILITIES		
Intragovernmental Liabilities		
Interest Payable	$ 864	$ 832
Debt (Note 9)	7,756,100	8,088,099
Net Assets of Liquidating Funds Due to Treasury (Note 10)	10,140	41,698
Downward Reestimate Payable to Treasury (Note 1, Note 13)	1,637,283	1,116,192
Other (Note 8, Note 11)	9,984	9,652
Total Intragovernmental Liabilities	9,414,371	9,256,473
Other Liabilities - Public		
Accounts Payable (Note 1)	47,707	45,972
Accrued Grant Liability (Note 1)	77,000	73,000
Liability for Loan Guaranties (Note 6)	2,044,509	2,987,263
Federal Employees' Compensation Act Actuarial Liability (Note 1, Note 8)	34,627	33,703
Surety Bond Guarantee Program Future Claims (Note 8)	35,799	31,029
Other (Note 8, Note 11)	41,790	34,876
Total Other Liabilities - Public	2,281,432	3,205,843
Total Liabilities	**11,695,803**	**12,462,316**
NET POSITION		
Unexpended Appropriations (Note 1)	1,692,804	1,753,736
Cumulative Results of Operations (Note 1)	(204,356)	(369,882)
Total Net Position	**1,488,448**	**1,383,854**
Total Liabilities and Net Position	**$ 13,184,251**	**$ 13,846,170**

The accompanying notes are an integral part of these statements.

U. S. Small Business Administration

Consolidated Statement of Net Cost

For the years ended September 30, 2014 and 2013

(Dollars in Thousands)

	2014	2013
STRATEGIC GOAL 1:		
Growing Businesses and Creating Jobs		
Gross Cost	$ (107,258)	$ 1,002,050
Less: Earned Revenue	511,728	614,595
Net Cost of Strategic Goal 1	**(618,986)**	**387,455**
STRATEGIC GOAL 2:		
Serving as the Voice for Small Business		
Gross Cost	109,488	92,964
Total Program Cost of Strategic Goal 2	**109,488**	**92,964**
STRATEGIC GOAL 3:		
Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses		
Gross Cost	25,830	5,908
Total Program Cost of Strategic Goal 3	**25,830**	**5,908**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Gross Cost	17,274	37,759
Total Program Cost Not Assigned to Strategic Goals	**17,274**	**37,759**
Net Cost of Operations	**$ (466,394)**	**$ 524,086**

Note 14

The accompanying notes are an integral part of these statements.

DID YOU KNOW

For the first time in eight years, the federal government met the 23 percent small business contracting goal, purchasing **$83 billion** in goods and services from small businesses through prime contracting procurements totaling 23.39 percent.

For more information visit:
http://www.sba.gov/content/small-business-procurement-scorecards-0.

U. S. Small Business Administration

Consolidated Statement of Changes in Net Position

For the years ended September 30, 2014 and 2013

(Dollars in Thousands)

	2014	2013
Beginning Cumulative Results of Operations	$ **(369,882)**	$ **(907,005)**
Budgetary Financing Sources		
Appropriations Used	1,325,564	2,169,146
Donations of Cash and Cash Equivalents	40	20
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others	21,893	19,955
Other - Current Year Liquidating Equity Activity	(3,218)	(3,992)
Other - Non-entity Activity	(1,645,147)	(1,123,920)
Total Financing Sources	**(300,868)**	**1,061,209**
Less: Net Cost of Operations	**(466,394)**	**524,086**
Ending Cumulative Results of Operations	**$ (204,356)**	**$ (369,882)**
Beginning Unexpended Appropriations	**$ 1,753,736**	**$ 1,281,279**
Budgetary Financing Sources		
Appropriations Received	1,278,241	2,745,037
Rescissions	–	(95,281)
Adjustment - Cancelled Authority	(9,434)	(5,194)
Return of Unrequired Liquidating Fund Appropriation	(3,534)	–
Other Adjustments	(641)	(2,959)
Appropriations Used	(1,325,564)	(2,169,146)
Total Budgetary Financing Sources	**(60,932)**	**472,457**
Ending Unexpended Appropriations	**$ 1,692,804**	**$ 1,753,736**
Ending Net Position	**$ 1,488,448**	**$ 1,383,854**

The accompanying notes are an integral part of these statements.

U. S. Small Business Administration

Combined Statement of Budgetary Resources

For the years ended September 30, 2014 and 2013

(Dollars in Thousands)

	September 30, 2014		
	Budgetary	**Nonbudgetary Financing**	**Total**
BUDGETARY RESOURCES			
Unobligated Balance Brought Forward, October 1	$ 1,297,199	$ 4,136,787	$ 5,433,986
Recoveries of Prior Year Obligations	105,039	317,098	422,137
Other Changes in Unobligated Balance	(34,053)	(965,794)	(999,847)
Unobligated Balance from Prior Year Budget Authority, net	1,368,185	3,488,091	4,856,276
Appropriations (discretionary and mandatory)	1,274,707	–	1,274,707
Borrowing Authority (discretionary and mandatory)	–	762,945	762,945
Spending Authority from Offsetting Collections	381,357	3,551,374	3,932,731
Total Budgetary Resources	**$ 3,024,249**	**$ 7,802,410**	**$ 10,826,659**
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred	$ 1,661,198	$ 3,453,214	$ 5,114,412
Unobligated Balance, end of year:			
Apportioned	398,548	1,586,238	1,984,786
Unapportioned	964,503	2,762,958	3,727,461
Total Unobligated Balance, end of year	1,363,051	4,349,196	5,712,247
Total Status of Budgetary Resources	**$ 3,024,249**	**$ 7,802,410**	**$ 10,826,659**
CHANGE IN OBLIGATED BALANCE			
Unpaid Obligations:			
Unpaid Obligations, Brought Forward, October 1	$ 639,951	$ 701,530	$ 1,341,481
Obligations Incurred	1,661,198	3,453,214	5,114,412
Gross Outlays	(1,710,912)	(3,592,085)	(5,302,997)
Recoveries of Prior Year Unpaid Obligations	(105,039)	(317,098)	(422,137)
Unpaid Obligations, end of year	485,198	245,561	730,759
Uncollected Payments:			
Uncollected Payments, Federal Sources, brought forward, October 1	–	(296,519)	(296,519)
Change in Uncollected Payments, Federal Sources	–	153,510	153,510
Uncollected Payments, Federal Sources, end of year	–	(143,009)	(143,009)
Memorandum (non-add) entries:			
Obligated Balance, start of year	**$ 639,951**	**$ 405,011**	**$ 1,044,962**
Obligated Balance, end of year	**$ 485,198**	**$ 102,552**	**$ 587,750**
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget Authority, gross (discretionary and mandatory)	$ 1,656,064	$ 4,314,319	$ 5,970,383
Actual Offsetting Collections (discretionary and mandatory)	(392,155)	(3,923,558)	(4,315,713)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	153,510	153,510
Budget Authority, net (discretionary and mandatory)	**$ 1,263,909**	**$ 544,271**	**$ 1,808,180**
Gross Outlays (discretionary and mandatory)	$ 1,710,912	$ 3,592,085	$ 5,302,997
Actual Offsetting Collections (discretionary and mandatory)	(392,155)	(3,923,558)	(4,315,713)
Net Outlays (discretionary and mandatory)	1,318,757	(331,473)	987,284
Distributed Offsetting Receipts	900	(1,124,055)	(1,123,155)
Agency Outlays, net (discretionary and mandatory)	**$ 1,319,657**	**$ (1,455,528)**	**$ (135,871)**

Note 15

The accompanying notes are an integral part of these statements.

U. S. Small Business Administration

Combined Statement of Budgetary Resources (continued)

For the years ended September 30, 2014 and 2013

(Dollars in Thousands)

	September 30, 2013		
	Budgetary	**Nonbudgetary Financing**	**Total**
BUDGETARY RESOURCES			
Unobligated Balance Brought Forward, October 1	$ 862,901	$ 4,769,467	$ $5,632,368
Recoveries of Prior Year Obligations	63,684	81,655	145,339
Other Changes in Unobligated Balance	(22,648)	(595,820)	(618,468)
Unobligated Balance from Prior Year Budget Authority, net	903,937	4,255,302	5,159,239
Appropriations (discretionary and mandatory)	2,649,756	–	2,649,756
Borrowing Authority (discretionary and mandatory)	–	1,520,370	1,520,370
Spending Authority from Offsetting Collections	625,835	4,104,394	4,730,229
Total Budgetary Resources	**$ 4,179,528**	**$ 9,880,066**	**$ 14,059,594**
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred	$ 2,882,329	$ 5,743,279	$ 8,625,608
Unobligated Balance, end of year:			
Apportioned	594,338	854,066	1,448,404
Unapportioned	702,861	3,282,721	3,985,582
Total Unobligated Balance, end of year	1,297,199	4,136,787	5,433,986
Total Status of Budgetary Resources	**$ 4,179,528**	**$ 9,880,066**	**$ 14,059,594**
CHANGE IN OBLIGATED BALANCE			
Unpaid Obligations:			
Unpaid Obligations, Brought Forward, October 1	$ 619,996	$ 278,173	$ 898,169
Obligations Incurred	2,882,329	5,743,279	8,625,608
Gross Outlays	(2,798,690)	(5,238,267)	(8,036,957)
Recoveries of Prior Year Unpaid Obligations	(63,684)	(81,655)	(145,339)
Unpaid Obligations, end of year	639,951	701,530	1,341,481
Uncollected Payments:			
Uncollected Payments, Federal Sources, brought forward, October 1	–	(176,681)	(176,681)
Change in Uncollected Payments, Federal Sources	–	(119,838)	(119,838)
Uncollected Payments, Federal Sources, end of year	–	(296,519)	(296,519)
Memorandum (non-add) entries:			
Obligated Balance, start of year	**$ 619,996**	**$ 101,492**	**$ 721,488**
Obligated Balance, end of year	**$ 639,951**	**$ 405,011**	**$ 1,044,962**
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget Authority, gross (discretionary and mandatory)	$ 3,275,591	$ 5,624,764	$ 8,900,355
Actual Offsetting Collections (discretionary and mandatory)	(625,895)	(4,540,597)	(5,166,492)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	(119,838)	(119,838)
Budget Authority, net (discretionary and mandatory)	**$ 2,649,696**	**$ 964,329**	**$ 3,614,025**
Gross Outlays (discretionary and mandatory)	$ 2,798,690	$ 5,238,267	$ 8,036,957
Actual Offsetting Collections (discretionary and mandatory)	(625,895)	(4,540,597)	(5,166,492)
Net Outlays (discretionary and mandatory)	2,172,795	697,670	2,870,465
Distributed Offsetting Receipts	(118)	(1,696,861)	(1,696,979)
Agency Outlays, net (discretionary and mandatory)	**$ 2,172,677**	**$ (999,191)**	**$ 1,173,486**

Note 15

The accompanying notes are an integral part of these statements.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Small Business Act of 1953 created the Small Business Administration as an independent federal agency. SBA's mission is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters. The SBA operates through the execution of a congressionally approved budget that funds its programs.

Basis of Accounting and Presentation

The SBA prepares financial statements to report its financial position and results of its operations as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The financial statements are prepared from the Agency's records in accordance with generally accepted accounting principles using formats prescribed by the Office of Management and Budget. As a federal agency, the SBA cannot incur obligations without authority from the Congress and an apportionment by the OMB.

These financial statements reflect transactions recorded on both a proprietary accrual accounting basis and a budgetary obligation basis, in accordance with concepts and guidance provided by the OMB, the Federal Accounting Standards Advisory Board, and the Department of the Treasury. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting recognizes the legal commitment or obligation of funds in advance of the proprietary accruals and facilitates compliance with legal constraints and controls over the use of federal funds.

The Federal Credit Reform Act of 1990 governs SBA's accounting for direct loans and loan guaranties made in FY 1992 and thereafter. Under the FCRA, the liability for loan guaranties is determined as the summarized discounted present value of the estimated future net cash inflows and outflows for each fiscal year's cohort of guaranties. For direct loans, the allowance is the current outstanding FCRA loans receivable balance less the discounted present value of the estimated future net cash flows for all the loan cohorts. A cohort of loans receivable or guarantied loans is all of the loans made in a given fiscal year. Increases to individual loans in a cohort that are made in a subsequent fiscal year are accounted for in the subsequent year's loan cohort. Cohort cash flows include loan repayments, recoveries on defaulted guaranties, and loan fees received by the SBA that are due from the lenders and borrowers when the loan is made and during the life of the loan cohort, as well as expenditures by the SBA for defaulted guaranties, loan servicing expenses, and other required SBA expenditures. An initial allowance or liability for loan guaranties is established in the original year of the loan cohort. The initial amount of the allowance and liability for each cohort is reestimated annually at fiscal year-end, and the adjusted amount is included in SBA's annual financial statements. Note 6 further describes FCRA accounting.

Use of Estimates

SBA's management makes assumptions and uses estimates to prepare the financial statements based upon the facts that exist when the statements are prepared. The SBA also uses economic assumptions provided by the Office of Management and Budget in preparing the estimates. Actual results may differ from those assumptions and estimates and the differences may be significant. The most significant differences between actual results and these estimates may occur in the valuation of credit program receivables and liabilities for loan guaranties under guidelines in the Federal Credit Reform Act of 1990. The SBA recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions and therefore continually reviews its model factors and statistical modeling techniques to reflect the most accurate credit program costs possible in its annual financial statements.

Budgets and Budgetary Accounting for Loan Programs

SBA's loan disbursements are financed by appropriations for long-term loan subsidy cost and borrowings from the Treasury's Bureau of the Fiscal Service for the remaining non-subsidized portion of the loans. The Congress may provide one year, multi-year, or no year appropriations to cover the estimated long-term costs of the loan programs. The non-subsidized portion of each loan disbursement, financed initially under permanent indefinite authority to borrow funds from the Treasury, is repaid from collections of loan fees, repayments, and default recoveries. The Congress authorizes the dollar amount of obligations that can be made for the cost of direct loans and loan guaranties and establishes the maximum amount of loans the SBA can guarantee in its annual appropriation bill.

A permanent indefinite authority is available to fund any reestimated increase of subsidy costs that occurs after the year in which a loan is disbursed. Reestimated reductions of subsidy costs are returned to the Treasury and are unavailable to the SBA. As required by the Federal Credit Reform Act of 1990, the SBA uses budgetary "program accounts" to account for appropriations in its credit programs and nonbudgetary "financing accounts" to account for credit program cash flow. Estimates and reestimates of credit program subsidy expenses are recorded in SBA's program accounts. Financing accounts are used to account for Treasury borrowings, the collection of loan fees, repayments and default recoveries, and the disbursement of loans and loan expenses.

Accounts Payable

Accounts Payable are amounts due to public entities that will be liquidated during the next operating cycle. Included in the liability are payables to SBA lenders for their share of loan collections and to vendors for goods and services.

Accrued Grant Liability

Disbursements of grant funds are recognized as expenses at the time of disbursement. However, some grant recipients incur expenditures prior to initiating a request for disbursement based on the nature of the expenditures. The SBA accrues a liability for expenditures incurred by grantees prior to receiving grant funds for the expenditures. The amount to be accrued is determined through an analysis of historic grant expenditures. The Small Business Development Center program and several other grant programs are subject to this treatment.

Advances

The SBA has both intragovernmental advances and advances to the public. Intragovernmental advances are to the Interior Business Center of the Department of the Interior, for contracting assistance on work not yet performed. Advances to the public represent prepaid grants to counseling and training partners.

Contingencies

The SBA is a party in various administrative proceedings, legal actions, environmental suits and claims brought against the Agency. In the opinion of SBA's management and legal counsel, the ultimate resolution of these proceedings, actions, suits, and claims will not materially affect the financial position or results of SBA's operations.

Cumulative Results of Operations

The deficit in Cumulative Results of Operations, presented on the Balance Sheet and on the Statement of Changes in Net Position, is the accumulated difference between expenses and financing sources since the inception of the Agency. The deficits reported reflect timing differences between the recording of expenses and the recognition of resources. Most of this timing difference results from subsidy reestimates which are funded in the following year.

Unexpended Appropriations

Unexpended Appropriations is the portion of SBA's appropriations received which are either undelivered or unobligated. Delivered orders result in expended appropriations and reduce the total reported as Unexpended Appropriations. Undelivered orders are the amount of orders of goods or services which have not been actually or constructively received.

Reclassifications

As discussed in Note 14, certain FY 2013 financial statement line items have been reclassified to conform with the current year presentation. The reclassifications had no material effect on total assets, liabilities, net position, or net cost of operations as previously reported.

Employee Benefits

Leave

A liability for employee annual leave is accrued as it is earned and reduced as leave is taken. Each year the balance of accrued annual leave is adjusted to reflect current pay rates as well as forfeited "use or lose" leave. Amounts are reported as unfunded to the extent current or prior year appropriations are not available to fund annual leave earned but not taken. Sick leave and other types of non-vested leave are expensed as taken.

Employee Health and Life Insurance Benefits

SBA employees may choose to participate in the contributory Federal Employees Health Benefits and the Federal Employees Group Life Insurance programs. The SBA matches a portion of the employee contributions to each program. Such matching contributions are recognized as current operating expenses.

Employee Pension Benefits

SBA employees participate in either the Civil Service Retirement System or the Federal Employees Retirement System and Social Security. These systems provide benefits upon retirement and in the event of death, disability or other termination of employment and may also provide pre-retirement benefits. They may also include benefits to survivors and their dependents, and they may contain early retirement or other special features. SBA's contributions to both retirement plans, as well as to the government-wide Federal Insurance Contribution Act, administered by the Social Security Administration, are recognized on the Consolidated Statement of Net Cost as current operating expenses.

Federal employee benefits also include the Thrift Savings Plan. For FERS employees the SBA matches employee contributions to the plan, subject to limitations. The matching contributions are recognized as current operating expenses.

Imputed Financing Costs

The SBA recognizes the full cost of providing all employee benefits and future retirement benefits, including life and health insurance, at the time employee services are rendered. Eligible retired SBA employees can continue to participate in health and life insurance plans. The cost of these benefits is funded through Agency contributions, employee compensation to the extent withheld from employee and retiree pay, from matching of employee withholding for Thrift Savings Plan and FICA, and by the Office of Personnel Management which administers the retirement programs for SBA employees.

The OPM calculates imputed costs as the actuarial present value of future benefits attributed to services rendered by covered employees and eligible retired SBA employees during the accounting period, net of the amounts contributed by employees, retirees, and the Agency. The SBA recognizes these imputed costs in the Statement of Net Cost and imputed financing in determining SBA's net position.

Federal Employees' Compensation Act

The Federal Employees' Compensation Act provides income and medical cost protection to covered federal civilian employees injured on the job and to beneficiaries of employees whose deaths are attributable to job-related injury or disease. The FECA program is administered by the Department of Labor. Labor pays valid claims as they occur, which are billed to the SBA annually and funded and paid approximately 15 months later. Labor also calculates an estimated actuarial liability for future benefits based upon historical experience and other economic variables. Projected annual benefit payments are then discounted to present value using the forecasted interest rates for 10-year Treasury notes and bonds published by the OMB in its economic assumptions for the federal budget. The SBA recognizes a current unfunded cost for the actual claims paid and the change in the FECA actuarial liability each year.

NOTE 2 FUND BALANCE WITH TREASURY

The Department of the Treasury processes cash receipts and disbursements on SBA's behalf to pay liabilities and finance loan program costs. Cash receipts are deposited into SBA's account at the Treasury. SBA's fund balances with the Treasury are available to make expenditures to liquidate allowable obligations, except for the Non-entity Fund Balance which is not available to the SBA to obligate or expend. Separate records are maintained for SBA's program, financing, liquidating, suspense/budget clearing accounts and other accounts. Fund balances at the Treasury include expired year amounts, which are unavailable for obligation, as well as amounts currently available for new obligations.

(Dollars in Thousands)

As of September 30,	**2014**	**2013**
Appropriated Funds	$ 1,766,183	$ 1,835,332
Financing Funds	4,260,921	4,261,451
Liquidating Funds	1,124	28,338
Revolving Fund	80,779	73,343
Trust Fund	162	136
Total Entity Fund Balance with Treasury	**6,109,169**	**6,198,600**
Non-entity Fund Balance	–	4
Budget Clearing Account Balance	942	–
Total Fund Balance with Treasury	**$ 6,110,111**	**$ 6,198,604**
Status of Fund Balance with Treasury		
Unobligated Balance Available	$ 1,984,786	$ 1,448,404
Unobligated Balance Unavailable	3,727,461	3,985,582
Obligated Balance Not Yet Disbursed	587,750	1,044,962
Borrowing Authority Not Converted to Funds	(190,828)	(280,348)
Nonbudgetary	942	4
Total Fund Balance with Treasury	**$ 6,110,111**	**$ 6,198,604**

Unobligated balances become available when OMB approves SBA's request to apportion funds for obligation in the current fiscal year. Obligated balances not yet disbursed include unpaid obligations offset by uncollected customer payments from other federal government accounts. The unobligated and obligated balances are reflected on the Statement of Budgetary Resources.

NOTE 3 CASH

The SBA field offices deposit collections from borrowers in SBA's account at the Treasury using an electronic deposit system. At the end of the fiscal year, collections temporarily held by SBA field offices pending deposit are recorded as Undeposited Collections – Cash in Transit and totaled $1.3 million and $3.9 million at September 30, 2014 and 2013.

NOTE 4 FIDUCIARY ACTIVITIES: MASTER RESERVE FUND AND MASTER RESERVE ACCOUNT

Fiduciary activities are the receipt, management, protection, accounting, investment and disposition by the federal government of cash or other assets in which non-federal entities have an ownership interest that the federal government must uphold. Fiduciary cash and other assets are not assets of the government, and are not recognized on SBA's proprietary statements, but they are required to be disclosed in the notes to SBA's financial statements. SBA's fiduciary balances are on deposit in commercial banks.

The Master Reserve Fund is a fiduciary activity administered by SBA's fiscal agent, Colson Services Corp., a subsidiary of the Bank of New York Mellon. The balance in the MRF is invested according to SBA policy entirely in Treasury securities and repurchase agreements that are backed by Treasury securities. The MRF is an integral part of SBA's 7(a) secondary market program. The MRF was authorized by the Small Business Secondary Market Improvement Act of 1984 to facilitate the pooling of 7(a) guarantied loans that are purchased by secondary market investors. The 7(a) secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty, to 7(a) secondary market investors. The MRF supports $22.5 billion and $20.5 billion of outstanding SBA guarantied 7(a) loan principal in the secondary market at September 30, 2014 and 2013.

The Master Reserve Account is an SBA fiduciary activity that is administered for the SBA by Wells Fargo. The balance in the MRA is invested entirely in Treasury securities. The MRA facilitates the operation of the 504 Certified Development Company secondary market program. The MRA was authorized by Section 505 of the Small Business Investment Act of 1958 as amended, as a vehicle to receive, temporarily hold, and distribute 504 program cash flows. The MRA receives monthly payments from the 504 borrowers, and retains the payments until a semi-annual debenture payment is due to the secondary market investors. The 504 secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty, to 504 secondary market investors. The MRA supports $28.4 billion and $28.1 billion of SBA guarantied 504 debentures outstanding in the secondary market at September 30, 2014 and 2013.

The composition of the MRF and MRA and a reconciliation of the changes in the assets are included in the following table.

Master Reserve Fund and Master Reserve Account

(Dollars in Thousands)

FIDUCIARY ASSETS

As of September 30,	**2014**			**2013**		
	MRF	**MRA**	**Total**	**MRF**	**MRA**	**Total**
Cash	$ 44,994	$ –	$ 44,994	$ –	$ –	$ –
Short Term Securities						
Money Market Funds	76,758	636,789	713,547	13,659	700,760	714,419
Treasury Bills	404,924	–	404,924	–	–	–
Repurchase Agreements	223,892	–	223,892	567,511	–	567,511
Total Cash and Short Term Securities	**750,568**	**636,789**	**1,387,357**	**581,170**	**700,760**	**1,281,930**
Long Term Securities						
Treasury Notes Including Interest	2,113,153	–	2,113,153	2,087,658	–	2,087,658
Total Long Term Securities	**2,113,153**	**–**	**2,113,153**	**2,087,658**	**–**	**2,087,658**
Net Assets	**$ 2,863,721**	**$ 636,789**	**$ 3,500,510**	**$ 2,668,828**	**$ 700,760**	**$ 3,369,588**

Master Reserve Fund and Master Reserve Account

(Dollars in Thousands)

RECONCILIATION OF FIDUCIARY ASSETS

For the Years Ending September 30,	2014			2013		
	MRF	MRA	Total	MRF	MRA	Total
Beginning Net Assets	**$ 2,668,828**	**$ 700,760**	**$ 3,369,588**	**$ 2,464,331**	**$ 518,214**	**$ 2,982,545**
Receipts						
Earned Income	33,616	106	33,722	41,352	608	41,960
Contributions	4,011,870	13,483,031	17,494,901	3,574,020	7,950,189	11,524,209
Net Realized Gain (Loss)	(4,239)	–	(4,239)	(1,366)	–	(1,366)
Total Receipts	**4,041,247**	**13,483,137**	**17,524,384**	**3,614,006**	**7,950,797**	**11,564,803**
Less Disbursements						
Payments to Investors	3,846,354	13,547,108	17,393,462	3,409,509	7,768,251	11,177,760
Total Disbursements	**3,846,354**	**13,547,108**	**17,393,462**	**3,409,509**	**7,768,251**	**11,177,760**
Ending Net Assets	**$ 2,863,721**	**$ 636,789**	**$ 3,500,510**	**$ 2,668,828**	**$ 700,760**	**$ 3,369,588**

NOTE 5 ACCOUNTS RECEIVABLE

Accounts receivable include amounts owed by the public for guaranty fees in SBA's loan and surety bond programs, refunds due from employees and others, as well as other amounts owed by lenders on guarantied loans purchased by the SBA. An Allowance for Loss on uncollectible Surety Bond Guaranty fees is based on an aging of delinquent balances. The uncollectible amount for refunds and loan guaranty fees is not significant and no allowance is provided. Amounts over 180 days past due on guarantied loans purchased by the SBA are written off for financial reporting purposes.

(Dollars in Thousands)

As of September 30,	2014	2013
Public		
Guaranty Fees Receivable	$ 77,510	$ 78,355
Refunds	437	77
Other	5,899	5,670
Total Public	**83,846**	**84,102**
Allowance For Loss	(30)	(5)
Net Public	**$ 83,816**	**$ 84,097**

NOTE 6 CREDIT PROGRAM RECEIVABLES AND LIABILITY FOR LOAN GUARANTIES

A. Loan Program Descriptions and Cost Determinations

Loan Program Descriptions

The SBA provides guaranties that help small businesses obtain bank loans and licensed companies to make investments in qualifying small businesses. The SBA also makes loans to microloan intermediaries and provides a direct loan program that assists homeowners, renters, and businesses to recover from disasters.

Major Direct Loan and Loan Guaranty Programs

Program group	Program type	Program
Disaster	Direct	Disaster Assistance Loans
Business	Guarantied	7(a) Loan Guaranty
Business	Guarantied	504 Certified Development Company
Business	Guarantied	Small Business Investment Company Debentures
Business	Direct	7(m) Microloan

SBA's Disaster Assistance loan program makes direct loans to disaster victims under four categories: (1) loans for homes and personal property; (2) physical disaster loans to businesses of any size; (3) economic injury loans to small businesses without credit available elsewhere; and (4) economic injury loans to eligible businesses affected by essential employees called up to active duty in the military reserves. The maximum interest rate is 4 percent for loan applicants without credit available elsewhere and 8 percent for applicants with credit available elsewhere.

SBA's business loan programs include its flagship 7(a) Loan Guaranty program in which the SBA guarantees up to 90 percent of the principal amount of loans made by banks and other lending institutions to small businesses not able to obtain credit elsewhere.

The Section 504 Certified Development Company program guarantees 100 percent of the principal and interest payments on debentures issued by development companies that make small business loans secured primarily by real estate.

The Small Business Investment Company Debentures program guarantees principal and interest payments on securities issued by investment capital firms, which in turn make investments in small businesses.

The 7(m) Microloan program provides direct loans to nonprofit intermediaries, which use these funds to make loans up to $50,000 to eligible small businesses.

Credit Program Receivables and Liability for Loan Guaranties

The Federal Credit Reform Act of 1990 governs direct loans made after FY 1991. FCRA loans are valued at the present value of expected future cash flows, discounted at the interest rate of marketable Treasury securities. The subsidy allowance represents the difference between the outstanding loans receivable balance and the net present value of the estimated cash flows of the loans over their remaining term. The subsidy allowance is subtracted from the outstanding loans receivable balance to obtain the net loans receivable balance. FCRA also governs loan guaranties made after FY 1991. A liability for outstanding guaranties is included on SBA's Balance Sheet. The liability is determined by calculating the net present value of expected future cash flows for outstanding guaranties in a manner similar to that used to determine the subsidy allowance for direct loans. Guarantied loans purchased by the SBA upon borrower default are established as loans receivable and are valued in a similar manner as direct loans under FCRA.

Direct loans made prior to FCRA are recorded at cost with an allowance for uncollectible amounts calculated using historical loss experience. For loan guaranties made prior to FCRA, a liability for expected future losses on outstanding guaranties is established based on historical experience. Guarantied loans purchased upon borrower default are established as loan receivables with an allowance for losses based on historical loss experience.

The SBA advances payments semiannually to honor its timely payment requirement of principal and interest due for debentures in SBA's Section 504 Certified Development Company and Small Business Investment Company programs. The advances are liquidated by receipt of the payments due from borrowers in these programs. To the extent that borrower payments may not repay advances, balances that remain collectible are reported as credit program receivables.

Subsidy Funding under Federal Credit Reform

FCRA requires that the credit subsidy costs of direct loans and loan guaranties be expensed in the year loans are disbursed. The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guarantied loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The cost expressed as a percentage of loans disbursed is termed the subsidy rate. The SBA receives appropriations annually to fund its credit programs based on the subsidy rate that applies to the credit program level approved by Congress. The SBA records subsidy expenses when loans are disbursed. In accordance with FCRA, subsidy costs are reestimated annually.

Interest Receivable

Interest receivable is comprised of accrued interest on loans receivable and purchased interest related to defaulted guarantied loans. Interest income is accrued at the contractual rate on the outstanding principal amount and is reduced by the amount of interest income accrued on non-performing loans in excess of 90 days delinquent. Purchased interest is carried at cost. A 100 percent loss allowance is established for all purchased interest on non-performing loans.

Foreclosed Property

Foreclosed property is comprised of real and business-related and personal property acquired through foreclosure on direct loans and defaulted loan guaranties. Properties acquired as a result of defaulted loans committed after FY 1991 are shown at recoverable value which is adjusted to the present value of expected future cash flows for financial statement presentation through the allowance for subsidy. Other foreclosed property is shown at the appraised value. At September 30, 2014 SBA's foreclosed property was $43.0 million related to 93 loans. The properties had been held for an average of 860 days. At September 30, 2013 foreclosed property was $47.3 million related to 84 loans. The properties had been held for an average of 868 days.

Valuation Methodology for Post-1991 Direct Loans and Loan Guaranties

The value of direct and guarantied loans committed after FY 1991 is based on the net present value of their expected future cash flows. The SBA estimates future cash flows for guarantied and direct loans using economic and financial credit subsidy models. The SBA has developed a customized credit subsidy model for each of its major loan guaranty and direct loan programs.

SBA's models vary in the specific methodologies employed to forecast future program cash flows. In general, however, models for all major credit programs use historical data as the basis for assumptions about future program performance and then translate these assumptions into nominal cash flow estimates by applying rules about program structure. Nominal cash flow forecasts are discounted using the Office of Management and Budget's Credit Subsidy Calculator that has both forecasted and actual Treasury interest rates.

Historical data is used as the basis for program performance assumptions. The historical data undergoes quality review and analysis prior to its use in developing model assumptions.

Key input to the subsidy models varies by program. Input includes items such as:

- Contractual terms of the loan or guaranty such as loan amount, interest rate, maturity and grace period

- Borrower characteristics
- Loan origination methods
- Economic indicators such as gross domestic product growth and unemployment rate
- Loan performance assumptions, for example: conditional purchase and prepayment rates and recovery rates
- Loan fee rates

Valuation Methodology for Pre-1992 Direct Loans and Loan Guaranties

The SBA values pre-credit reform direct and defaulted guarantied loans by estimating an allowance for loan losses. This allowance is offset against gross loan receivables to obtain SBA's expected net collections from these assets. The SBA establishes a 100 percent allowance for pre-credit reform direct and guarantied loans that are past due more than 180 days. A liability is also established for active pre-credit reform loan guaranties. The liability is estimated based on historical experience.

SUCCESS STORY: Babies' Comfort is Smart Business

Baby Elephant Ears Inc., Cambridge, Minnesota

Alicia Overby, SBA's *2014 Exporter of the Year*, is the founder and creator of Baby Elephant Ears, a small firm specializing in manufacturing, marketing, and exporting supportive pillows and other comfort accessories for babies. Out of sheer necessity, Alicia first had the idea for the product in 2008. In nine months, Baby Elephant Ears was launched. In five years, the company was selling its products at more than 850 locations in the U.S. and over a dozen countries.

Transitioning from home-based to thriving international business was not easy, but Alicia's commitment and hard work, coupled with SBDC assistance and two SBA loans, paid handsomely. Baby Elephant Ears also benefitted from the SBA STEP pilot program, which offers grants to states to promote export activities.

Alicia is heavily involved in sharing with other businesses and the community at large. Baby Elephant Ears "pays it forward" by mentoring other small business owners. The company also donates products lo local charities and donated 500 pieces to a local missions trip to Guatemala. From a business that was originally financed with a loan against her husband's 401K, Baby Elephant Ears boasts sales of more than $1.3 million annually.

B. Credit Program Receivables and Related Foreclosed Property, Net

(Dollars in Thousands)

As of September 30, 2014	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 5,727	$ 166,658	$ 172,385
Interest Receivable	2,142	683	2,825
Foreclosed Property	3,109	–	3,109
Allowance	(8,268)	(10,253)	(18,521)
Total Direct Business Loans	**2,710**	**157,088**	**159,798**
Direct Disaster Loans			
Disaster Loans Receivable	3,707	6,761,361	6,765,068
Interest Receivable	140	33,462	33,602
Foreclosed Property	–	2,409	2,409
Allowance	(548)	(1,230,152)	(1,230,700)
Total Direct Disaster Loans	**3,299**	**5,567,080**	**5,570,379**
Defaulted Guarantied Business Loans & Other Loans Receivable			
Defaulted Guarantied Business Loans	8,436	6,984,380	6,992,816
Other Loans Receivable (see note below)	–	284,795	284,795
Interest Receivable	656	73,688	74,344
Foreclosed Property	2,070	35,381	37,451
Allowance	(8,407)	(6,164,273)	(6,172,680)
Total Defaulted Guarantied Business Loans & Other Loans Receivable	**2,755**	**1,213,971**	**1,216,726**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 6,946,903**

As of September 30, 2013	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 8,958	$ 162,725	$ 171,683
Interest Receivable	2,040	757	2,797
Foreclosed Property	3,108	–	3,108
Allowance	(7,036)	(17,831)	(24,867)
Total Direct Business Loans	**7,070**	**145,651**	**152,721**
Direct Disaster Loans			
Disaster Loans Receivable	5,226	7,171,812	7,177,038
Interest Receivable	223	34,581	34,804
Foreclosed Property	–	1,690	1,690
Allowance	(852)	(1,345,560)	(1,346,412)
Total Direct Disaster Loans	**4,597**	**5,862,523**	**5,867,120**
Defaulted Guarantied Business Loans & Other Loans Receivable			
Defaulted Guarantied Business Loans	9,264	7,674,923	7,684,187
Other Loans Receivable (see note below)	–	326,765	326,765
Interest Receivable	580	115,425	116,005
Foreclosed Property	2,012	40,501	42,513
Allowance	(10,555)	(6,644,308)	(6,654,863)
Total Defaulted Guarantied Business Loans & Other Loans Receivable	**1,301**	**1,513,306**	**1,514,607**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 7,534,448**

Note: Other Loans Receivable includes payments advanced by the SBA against future reimbursements in the SBIC and 504 Guaranty programs.

C. Loans Disbursed and Outstanding Loan Obligations

(Dollars in Thousands)

DIRECT LOANS

New Loans Disbursed During the Year Ending September 30,		2014		2013
Business Direct Loan Program	$	36,410	$	42,305
Disaster Loan Program		438,375		813,711
Total Direct Loans Disbursed	**$**	**474,785**	**$**	**856,016**

Outstanding Loan Obligations as of September 30,		2014		2013
Business Direct Loan Program	$	40,669	$	54,568
Disaster Loan Program		156,158		605,591
Total Direct Loan Obligations	**$**	**196,827**	**$**	**660,159**

GUARANTIED LOANS

New Loans Disbursed During the Year Ending September 30,		2014		2013
Total Principal Disbursed at Face Value	$	22,453,725	$	21,660,417
Total Principal Disbursed Guarantied by the SBA		18,001,119		17,703,965

Outstanding Loan Obligations as of September 30,		2014		2013
Business Guarantied Loan Programs	$	14,548,472	$	14,370,509

Loans Outstanding as of September 30,		2014		2013
Total Principal Outstanding at Face Value	$	99,013,624	$	93,107,751
Total Principal Outstanding Guarantied by the SBA		83,505,973		79,064,486

SBA's guarantied loan servicing agent provides data to the SBA on the unpaid principal balance of guarantied loans within a precision of less than 1 percent due to timing.

D. Subsidy Cost Allowance Balances

(Dollars in Thousands)

For the Years Ending September 30,		2014		2013
Post-1991 Business Direct and Purchased Guarantied Loans				
Beginning Balance of Allowance Account	**$**	**6,662,139**	**$**	**6,974,670**
Current Year's Subsidy (see 6G for breakdown by component)		6,557		8,310
Loans Written Off		(1,446,655)		(2,001,738)
Subsidy Amortization		(2,343)		(1,446)
Allowance Related to Guarantied Loans Purchased This Year		820,625		1,538,325
Miscellaneous Recoveries and Costs		140,817		167,295
Balance of Subsidy Allowance Account before Reestimates		6,181,140		6,685,416
Technical Assumptions/Default Reestimates		(6,614)		(23,277)
Ending Balance of Allowance Account	**$**	**6,174,526**	**$**	**6,662,139**
Post-1991 Disaster Direct Loans				
Beginning Balance of Allowance Account	**$**	**1,345,560**	**$**	**1,403,968**
Current Year's Subsidy (see 6G for breakdown by component)		44,394		90,673
Loans Written Off		(208,657)		(179,963)
Subsidy Amortization		(12,096)		(20,364)
Miscellaneous Recoveries and Costs		54,388		53,314
Balance of Subsidy Allowance Account before Reestimates		1,223,589		1,347,628
Technical Assumptions/Default Reestimates		6,563		(2,068)
Ending Balance of Allowance Account	**$**	**1,230,152**	**$**	**1,345,560**

E. Liability for Loan Guaranties

(Dollars in Thousands)

For the Years Ending September 30,	2014	2013
Pre-1992 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	**$ 45**	**$ 109**
Adjustment to Expected Losses, Guaranties Outstanding	25	(64)
Ending Balance of Liability for Loan Guaranties	**70**	**45**
Post-1991 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	**2,987,218**	**3,725,842**
Current Year's Subsidy (see 6G for breakdown by component)	143,867	275,742
Fees	1,099,290	1,055,469
Interest Accumulation Factor	108,690	186,436
Claim Payments to Lenders	(1,470,965)	(2,116,250)
Adjustment Due to Reestimate & Guarantied Loan Purchases	650,340	577,925
Miscellaneous Recoveries and Costs	(11,765)	10,088
Balance of Liability for Loan Guaranties before Reestimates	3,506,675	3,715,252
Technical Assumptions/Default Reestimates	(1,462,236)	(728,034)
Ending Balance of Liability for Loan Guaranties	**2,044,439**	**2,987,218**
Total Ending Balance of Liability for Loan Guaranties	**$ 2,044,509**	**$ 2,987,263**

F. FY 2014 Subsidy Rates by Program and Component

LOAN PROGRAM	Total Subsidy	Financing	Default	Other	Fee
Guaranty					
7(a) (10-1-13 to 12-31-13)	**0.00%**	0.00%	3.98%	0.00%	-3.98%
7(a) (1-1-14 to 9-30-14)	**0.01%**	0.00%	3.98%	0.00%	-3.97%
504 CDC	**1.71%**	0.00%	8.91%	0.97%	-8.17%
SBIC Debentures	**0.00%**	0.00%	5.07%	0.12%	-5.19%
Direct					
Disaster (10-1-13 to 4-24-14)	**8.48%**	-2.52%	15.10%	-4.10%	0.00%
Disaster (4-25-14 to 9-30-14)	**8.53%**	-2.52%	15.16%	-4.11%	0.00%
Microloan	**18.64%**	8.19%	1.88%	8.57%	0.00%

The subsidy rates in Table F pertain only to loans obligated in the current year. These rates cannot be applied to the loans disbursed during the current year to yield the subsidy expense because loans disbursed during the current year include loans obligated in prior years. In FY 2014, the subsidy rate for the 7(a) loan program was adjusted due to the introduction of fee relief for loans under $150,000 and the subsidy rate for the Disaster loan program was adjusted due to a change in collateral requirements. Subsidy expenses reported in Table G result from the disbursement of loans obligated in the current year as well as in prior years, and include reestimates.

G. Subsidy Expense by Component

(Dollars in Thousands)

For the Years Ending September 30,	2014	2013
Business Loan Guaranties		
Interest	$ 39	$ (44)
Defaults	971,685	1,493,312
Fees	(857,676)	(1,250,050)
Other	29,819	32,524
Subsidy Expense Before Reestimates and Loan Modifications	143,867	275,742
Reestimates	(1,462,236)	(728,034)
Total Guarantied Business Loan Subsidy Expense	**$ (1,318,369)**	**$ (452,292)**
Business Direct Loans		
Interest	$ 3,227	$ 5,130
Defaults	758	1,024
Other	2,572	2,156
Subsidy Expense Before Reestimates	6,557	8,310
Reestimates	(6,614)	(23,277)
Total Business Direct Loan Subsidy Expense	**$ (57)**	**$ (14,967)**
Disaster Direct Loans		
Interest	$ 4,964	$ 28,438
Defaults	61,760	108,852
Other	(22,330)	(46,617)
Subsidy Expense Before Reestimates	44,394	90,673
Reestimates	6,563	(2,068)
Total Disaster Direct Loan Subsidy Expense	**$ 50,957**	**$ 88,605**

H. Administrative Expense

The SBA received appropriations to administer its credit programs, including the making, servicing, and liquidation of its loans and guaranties. Amounts expensed in the Statement of Net Cost are:

(Dollars in Thousands)

For the Years Ending September 30,	2014	2013
Disaster Direct Loan Programs	$ 177,469	$ 273,718
Business Loan Programs	151,282	142,044
Total Administrative Expense	**$ 328,751**	**$ 415,762**

I. Credit Program Subsidy Reestimates

Reestimates are performed annually, on a cohort-by-cohort basis. The purpose of reestimates is to update original program cost estimates to reflect actual cash flow experience as well as changes in forecasts of future cash flows. Forecasts of future cash flows are updated based on additional information about historical program performance, revised expectations for future economic conditions, and enhancements to cash flow projection methods. Financial statement reestimates were performed using a full year of performance data for FY 2014 for SBA's large loan programs and with nine months of actual and three months of projected performance data for the Secondary Market Guaranty and the small loan programs.

BUSINESS GUARANTIED LOAN PROGRAMS

Net subsidy reestimates for the business guarantied loan programs follows.

(Dollars in Thousands)

For the Years Ending September 30,	2014	2013
7(a)	$ (327,206)	$ (391,029)
7(a) - Recovery Act	398	(44,930)
7(a) - Jobs Act	(54,904)	(78,740)
Dealer Floor Plan	(1,866)	(937)
504 CDC	(619,688)	(128,079)
504 CDC - Recovery Act	(120,036)	(112,787)
504 CDC - Jobs Act	(33,148)	(29,298)
504 CDC - Debt Refinancing	(87,334)	(1,308)
504 First Mortgage Loan Pooling - Recovery Act	1,726	(4,924)
SBIC Debentures	(53,499)	31,577
SBIC Participating Securities	(96,055)	48,388
Secondary Market Guaranty Program	(61,915)	7,980
ARC - Recovery Act	(15,131)	(22,434)
All Other Guaranty Loan Programs	6,422	(1,513)
Total Guarantied Loan Program Subsidy Reestimates	**$ (1,462,236)**	**$ (728,034)**

The 7(a) Loan Guaranty program, SBA's flagship and largest program had a net downward reestimate in FY 2014 of $327.2 million. The reestimate is primarily due to better than expected loan performance in cohorts 2011 through 2014, offsetting worse than expected loan performance in cohorts 2005 through 2010. Strong loan performance was driven by lower than projected purchases in cohorts 2011 through 2014. Actual purchases for these cohorts were less than half of the purchases projected during FY 2014. The remainder of the reestimate is due to decreased loss projection for the 2014 cohort as compared to the original loss projections.

The 7(a) Recovery Act program had a net upward reestimate in FY 2014 of $0.4 million. Lower than expected purchases in FY 2014 were offset by lower than expected recoveries. Additionally, FY 2014 loan performance contributed to updated model assumptions, which resulted in decreased recovery projections.

The 7(a) Jobs Act cohort had a net downward reestimate in FY 2014 of $54.9 million. A significant portion of the reestimate is due to significantly better than projected FY 2014 loan performance. Actual purchases in the 7(a) Jobs Act cohort during FY 2014 were less than half of the purchases projected for FY 2014.

The Dealer Floor Plan program had a net downward reestimate of $1.9 million due to better than projected performance during FY 2014 and a technical adjustment to the treatment of the revolving lines of credit in accordance with changes in the guidance presented in OMB Circular A-11.

The 504 Certified Development Company program had a net downward reestimate of $619.7 million. The reestimate is primarily due to better than projected FY 2014 loan performance across all cohorts. Although some cohorts had higher than expected purchases, these unexpected losses were offset by higher than expected recoveries in all cohorts. The remainder of the reestimate was due to decreased loss projections for the 2014 cohort as compared to the original loss projections.

The 504 Recovery Act program had a net downward reestimate of $120 million. The reestimate is due to better than projected FY 2014 loan performance. Actual purchases in the 504 Recovery Act program were less than a quarter of the purchases projected for FY 2014.

The 504 Jobs Act program had a net downward reestimate of $33.1 million. The reestimate is due to better than projected FY 2014 loan performance. Actual purchases in the 504 Jobs Act program were less than a quarter of the purchases projected for FY 2014.

The 504 Debt Refinancing program had a net downward reestimate of $87.3 million. The reestimate is due to better than projected FY 2014 loan performance. Actual purchases in the 504 Debt Refinancing program were less than a quarter of the purchases projected for FY 2014.

The Section 504 First Mortgage Loan Pooling program had a net upward reestimate of $1.7 million. Lower than projected purchases in all three cohorts in FY 2014 were offset by lower than expected recoveries. Additionally, FY 2014 loan performance contributed to updated model assumptions, which resulted in decreased recovery projections.

The SBIC Debentures program had a net downward reestimate of $53.5 million. The primary driver of the reestimate was better than projected loan performance in FY 2014. Actual purchases were less than projected for FY 2014. Additionally, FY 2014 loan performance contributed to updated model assumptions, which resulted in decreased cash outflow projections.

The SBIC Participating Securities program had a net downward reestimate of $96.1 million. The downward reestimate was due to better than expected loan performance in FY 2014, particularly for the 2001-2004 cohorts. Actual recoveries were higher than projected and actual purchases were lower than projected in FY 2014. This was partially offset by lower actual reimbursements of prioritized payments than projected in FY 2014.

The Secondary Market Guaranty program had a net downward reestimate of $61.9 million. This downward reestimate was driven mainly by updating the forecasted pool balances in the Master Reserve Fund with the actual balances. The actual MRF balances were higher than previously projected, resulting in lower cash outflows to cover future SMG pool obligations.

The America's Recovery Capital program had a net downward reestimate of $15.1 million. The majority of this reestimate is due to better than projected loan performance in FY 2014. The remainder of the reestimate is mostly due to lower purchase projections in future years as a result of recent actual loan performance.

BUSINESS DIRECT LOAN PROGRAMS

Net subsidy reestimates for business direct loan programs follows.

(Dollars in Thousands)

For the Years Ending September 30,		**2014**		**2013**
7(m) Microloan	$	(3,412)	$	(17,653)
7(m) Microloan - Recovery Act		(1,030)		(4,719)
Intermediary Lending Pilot Program		(73)		(1,148)
SBIC Preferred Stock		(2,095)		289
All Other Direct Loan Programs		(4)		(46)
Total Direct Loan Program Subsidy Reestimates	**$**	**(6,614)**	**$**	**(23,277)**

The 7(m) Direct Microloan program had a net downward reestimate of $3.4 million. The downward reestimate is due partly to decreased projected losses in future years, especially for cohorts 2001, 2004-2005, 2007-2008, and 2011-2012. Additionally, increases in actual interest collected during FY 2014 and projected interest collections for all remaining years of most cohorts factored into the downward reestimate.

The 7(m) Direct Microloan Recovery Act program had a net downward reestimate of $1.0 million. The downward reestimate is primarily due to decreased projected losses in future years, especially in the 2010 cohort.

The Intermediary Lending Pilot program had a modest net downward reestimate of $0.1 million. For both the 2011 and 2012 cohorts, an increase in actual interest collected during FY 2014 and projected interest collections for all remaining years slightly offset increases in loss projections related to loan performance to generate the modest net downward reestimate.

DISASTER DIRECT LOAN PROGRAM

Net subsidy reestimates for the disaster direct loan programs follows:

(Dollars in Thousands)

For the Years Ending September 30,		2014		2013
Disaster	$	6,563	$	(2,068)
Total Disaster Direct Loan Program Subsidy Reestimates	**$**	**6,563**	**$**	**(2,068)**

The Disaster Assistance program had a net upward reestimate of $6.6 million. The 2006 and 2014 cohorts experienced the largest upward reestimates, while the 2007 and 2013 cohorts experienced the largest downward reestimates. The upward reestimate for the 2006 cohort was due to worse than expected performance in FY 2014 and due to updated projections of future performance, while the upward reestimate for the 2014 cohort was due to the actual average borrower's interest rate being lower than the original projected average borrower's interest rate. The downward reestimate for the 2007 cohort was due to better than expected performance in FY 2014, while the downward reestimate for the 2013 cohort was due to updated present value discount factors applied to projected cash flows.

NOTE 7 GENERAL PROPERTY AND EQUIPMENT, NET

The SBA capitalizes equipment with a cost of $50,000 or more per unit and a useful life of 2 years or more at full cost and depreciates using the straight-line method over the useful life. The SBA expenses equipment not meeting the capitalization criteria.

Leasehold improvements with modifications of $50,000 or more and a useful life of 2 years or more are capitalized and amortized using the straight-line method over the useful life of the improvement or the lease term, whichever is shorter. Leasehold improvements not meeting the capitalization criteria are expensed.

Software intended for internal use, whether internally developed, contractor developed, or purchased, is capitalized at cost if the unit acquisition cost is $250,000 or more and service life is at least 2 years. Capitalized software costs include all direct and indirect costs incurred, including overhead to develop the software. Software for internal use is amortized using the straight-line method over its useful life, not to exceed 5 years. Amortization begins when the software is put into production. The costs of enhancements are capitalized when it is more likely than not that the enhancements will result in significant additional capabilities. Costs that do not meet the capitalization criteria are expensed when incurred.

Assets meeting the capitalization thresholds are detailed here.

(Dollars in Thousands)

As of September 30,		**2014**		**2013**
Equipment	$	2,675	$	2,675
Accumulated Depreciation		(2,491)		(2,183)
Net		**184**		**492**
Leasehold Improvements		1,811		1,811
Amortization of Leasehold Improvements		(853)		(702)
Net		**958**		**1,109**
Software in Development		–		4,572
Software in Use		35,926		30,546
Amortization of Software in Use		(32,339)		(30,546)
Net		**3,587**		**4,572**
Total General Property and Equipment, Net	**$**	**4,729**	**$**	**6,173**

NOTE 8 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided. These unfunded liabilities consisted of:

(Dollars in Thousands)

As of September 30,		**2014**		**2013**
Intragovernmental Liabilities - Other				
Employment Taxes Payable	$	1,536	$	1,496
Federal Employees' Compensation Act Payable		6,026		5,854
Total Intragovernmental Liabilities - Other		**7,562**		**7,350**
Federal Employees' Compensation Act Actuarial Liability		**34,627**		**33,703**
Surety Bond Guarantee Program Future Claims		**35,799**		**31,029**
Other Liabilities				
Prior Liens on Real Estate Payable		59		59
Accrued Unfunded Annual Leave		26,361		26,871
Total Other Liabilities		**26,420**		**26,930**
Total Liabilities Not Covered by Budgetary Resources	**$**	**104,408**	**$**	**99,012**

The liability for Surety Bond Guarantees is an estimate of future claims in the SBG program for guaranties outstanding at year-end.

NOTE 9 DEBT

Borrowings payable to the Treasury result from loans provided by the Treasury to fund the portion of direct loans not covered by subsidy appropriations and to fund the payment of downward subsidy reestimates and other credit program disbursements (see Note 15). The SBA makes periodic principal repayments to the Treasury based on the analysis of its cash balances and future disbursement needs.

Borrowings payable to the Federal Financing Bank are the result of its financing of SBA Section 503 Debentures issued prior to 1988.

All debt is intragovernmental and covered by budgetary resources. Debt transactions for the periods ending September 30, 2014 and 2013 and resulting balances are:

INTRAGOVERNMENTAL DEBT

(Dollars in Thousands)

As of September 30,		2014		2013
Department of Treasury				
Beginning Balance	**$**	**8,088,099**	**$**	**7,919,741**
New Borrowing		852,468		1,320,219
Repayments		(1,184,467)		(1,151,861)
Ending Balance	**$**	**7,756,100**	**$**	**8,088,099**
Federal Financing Bank				
Beginning Balance	**$**	**–**	**$**	**60**
Repayments		–		(58)
Change in Interest Payable		–		(2)
Ending Balance	**$**	**–**	**$**	**–**
Total Debt	**$**	**7,756,100**	**$**	**$8,088,099**

NOTE 10 NET ASSETS OF LIQUIDATING FUNDS DUE TO TREASURY

Net Assets of Liquidating Funds Due to Treasury is the residual of the book value of assets less liabilities in the Liquidating Funds for loans made prior to FY 1992. The FY 2013 balance includes the unobligated balance for budgetary reporting that was transferred to the Treasury in early FY 2014. In FY 2014, the SBA developed procedures to transfer the unobligated balance at September 30 instead of in the following fiscal year.

(Dollars in Thousands)

As of September 30,		2014		2013
Pollution Control Equipment Guaranty Fund	$	–	$	1,119
Disaster Loan Fund		3,297		8,148
Business Loan and Investment Fund		6,843		32,431
Total Due Treasury	**$**	**10,140**	**$**	**41,698**

NOTE 11 OTHER LIABILITIES

Other liabilities were:

(Dollars in Thousands)

As of September 30,	2014	2013
OTHER LIABILITIES - INTRAGOVERNMENTAL		
Entity		
Current		
Employment Taxes Payable	$ 2,084	$ 1,817
Advances from Other Agencies	332	478
Total Current	**2,416**	**2,295**
Non-current		
Employment Taxes Payable	1,536	1,496
Federal Employees' Compensation Act Payable	6,026	5,854
Total Non-current	**7,562**	**7,350**
Total Entity	**9,978**	**9,645**
Non-entity		
Current		
Payable to Treasury	6	7
Total Other Liabilities - Intragovernmental	**$ 9,984**	**$ 9,652**
OTHER LIABILITIES - PUBLIC		
Entity		
Current		
Accrued Funded Payroll and Benefits	$ 13,778	$ 7,753
Accrued Unfunded Annual Leave	26,361	26,871
Contingent Liability	464	–
Suspense Accounts	1,128	189
Total Current	**41,731**	**34,813**
Non-current		
Prior Liens on Real Estate Payable	59	59
Total Non-current	**59**	**59**
Total Entity	**41,790**	**34,872**
Non-entity		
Current		
Non-entity Current Payable	–	4
Total Other Liabilities - Public	**$ 41,790**	**$ 34,876**

NOTE 12 LEASES

The SBA leases all of its facilities from the General Services Administration. The SBA enters into an Occupancy Agreement with GSA for each facility. GSA, in turn, leases commercial facilities or provides space in federal buildings. Agreements for space in federal buildings can be vacated with 120 to 180 days notice. However, the SBA anticipates continuing the same or similar facilities leases in the future. These leases with GSA are operating leases and are expensed in the Statement of Net Cost when incurred. FY 2014 and 2013 facilities lease costs were $45.1 million and $44.7 million. Future lease payments shown here assume a 3 percent inflation factor from the following years' projected totals as estimated by GSA, as well as continued costs during the next 5 years as leases expire and new leases are added. Payments after 5 years reflect only current leases that will still be in effect then, projected to the end of each lease term.

FUTURE FACILITIES OPERATING LEASE PAYMENTS

(Dollars in Thousands)

Fiscal Year		Lease Payments
2015	$	44,846
2016		46,191
2017		47,577
2018		49,004
2019		50,474
After 2019		36,186
Total	**$**	**274,278**

NOTE 13 NON-ENTITY REPORTING

Non-entity Assets are assets held by the SBA but not available to the SBA. The primary non-entity asset is for SBA's downward subsidy reestimates in its loan programs. Because the loan programs are discretionary, the downward reestimates are not available to the SBA and they are returned to the Treasury in the fiscal year following the accrual of the reestimates. During the year, these general fund accounts contain SBA's prior year reestimates. At year-end, the funds are swept by the Treasury. Also at year-end, the SBA accrues the current year's reestimates, including downward reestimates as applicable. For the downward reestimates, in the loan financing funds, the SBA records an accrual adjustment that records a transfer out to the non-entity fund, a reduction of subsidy allowance or loan guarantee liability, and an account payable to the non-entity fund. In the loan program funds the SBA records a reduction of loan subsidy expense and the associated impact on the net cost. The non-entity Treasury general funds contain a corresponding account receivable in anticipation of the receipt of the downward reestimates in the following year and a Downward Reestimate Payable to the Treasury.

For consolidated financial statement presentation, the SBA eliminates the payable to the non-entity fund and the non-entity Treasury general fund receivable from the financing funds; since both are included in SBA's reporting entity. The Downward Reestimate Payable to the Treasury in the non-entity Treasury general fund is not eliminated and is reflected on the Balance Sheet as a liability line item.

(Dollars in Thousands)

As of September 30,		2014		2013
Entity				
Financing Fund Payable	$	(1,637,283)	$	(1,116,192)
Non-entity				
Miscellaneous Receipts Fund Receivable		1,637,283		1,116,192
Downward Reestimate Payable to Treasury		(1,637,283)		(1,116,192)
Balance Sheet Reported Payable	**$**	**(1,637,283)**	**$**	**(1,116,192)**

NOTE 14 CONSOLIDATED STATEMENT OF NET COST

Federal cost accounting standards require the SBA to report operating costs by strategic goal activity. Full costs include all direct and indirect costs for a strategic goal. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost.

Operating Cost

The full and net operating costs of SBA's strategic goals are presented in the Consolidated Statement of Net Cost. Full costs are comprised of all direct costs for the strategic goals and those indirect costs which can be reasonably assigned or allocated to the strategic goals, including employee pension and other retirement benefit costs paid by the OPM and charged to the SBA.

Earned Revenue

Earned revenue arises from exchange transactions, and is deducted from the full cost of SBA's strategic goals to arrive at net strategic goals costs. The SBA recognizes earned revenue when reimbursements are payable from other federal agencies and the public, as a result of costs incurred or services performed. A major source of earned revenue includes interest earned on SBA's outstanding Business and Disaster loan portfolios and interest earned on uninvested funds in the credit reform financing accounts.

Reporting by Strategic Goal

The SBA reports net costs consistent with its three strategic goals on a full cost allocation basis. The SBA issued its *FY 2014-2018 Strategic Plan* this year, and FY 2013 costs have been reclassified to be comparable to the new strategic goal architecture. Strategic Goal 1 (Growing Businesses and Creating Jobs) includes SBA's loan, disaster, and other assistance programs, and now includes STEP grants that were excluded in the previous strategic plan. Strategic Goal 2 (Serving as the Voice for Small Business) is similar to the previous Strategic Goal 3 that includes small business advocacy, and now includes programs to promote entrepreneurship in economic sectors and communities where market gaps remain that were in the previous Strategic Goal 1. Strategic Goal 3 (Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses) is similar to the previous Strategic Goal 2 and now includes lender oversight costs that were in the previous Strategic Goal 1. Agency administrative overhead costs are fully allocated to the programs in Strategic Goals 1, 2, and 3. The Management's Discussion and Analysis section of SBA's annual Agency Financial Report includes additional detail on SBA's strategic goals. Costs Not Assigned to Strategic Goals include the Office of the Inspector General and grants made under congressionally mandated programs. The Office of the Inspector General's mission and funding is independent of SBA's and is therefore excluded. Congressional mandated grants do not necessarily involve small business and are also excluded.

Intragovernmental Gross Cost is incurred by the SBA in exchange transactions with other federal agencies, and Gross Cost with the Public is incurred in exchange transactions with the Public. Intragovernmental Earned Revenue is earned by the SBA in exchange transactions with other federal agencies, and Earned Revenue from the Public is earned in exchange transactions with the Public. The General Services Administration and the Treasury Department are SBA's primary Intragovernmental trading partners.

The classification as Intragovernmental Costs or Gross Cost with the Public relate to the source of goods and services received by the SBA and not to the classification of related revenue. The classification of revenue or cost being defined as "intragovernmental" or "public" is defined on a transaction by transaction basis. The purpose of this classification is to enable the federal government to provide consolidated financial statements, and not to match the public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

SBA's Gross Cost with the Public in Strategic Goal 1 is largely determined by estimates and reestimates of its credit program costs (See Note 6I). Downward reestimates of these costs caused the credit to Gross Cost with the Public in FY 2014.

INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

(Dollars in Thousands)

For the Years Ended September 30,	2014	2013
STRATEGIC GOAL 1: **Growing Businesses and Creating Jobs**		
Intragovernmental Gross Cost	$ 506,417	$ 524,105
Gross Cost with the Public	(613,675)	477,945
Total Strategic Goal 1 Gross Cost	**(107,258)**	**1,002,050**
Intragovernmental Earned Revenue	138,871	166,677
Earned Revenue from the Public	372,857	447,918
Total Strategic Goal 1 Earned Revenue	**511,728**	**614,595**
STRATEGIC GOAL 2: **Serving as the Voice for Small Business**		
Intragovernmental Gross Cost	$ 26,178	$ 18,930
Gross Cost with the Public	83,310	74,034
Total Strategic Goal 2 Gross Cost	**109,488**	**92,964**
STRATEGIC GOAL 3: **Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses**		
Intragovernmental Gross Cost	$ 6,176	$ 1,203
Gross Cost with the Public	19,654	4,705
Total Strategic Goal 3 Gross Cost	**25,830**	**5,908**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Intragovernmental Gross Cost	$ 4,130	$ 7,689
Gross Cost with the Public	13,144	30,070
Total Gross Cost Not Assigned to Strategic Goals	**17,274**	**37,759**
Net Cost of Operations	**$ (466,394)**	**$ 524,086**

NOTE 15 STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources presents information about total budgetary resources available to the SBA and the status of those resources as of September 30, 2014 and 2013. SBA's total budgetary resources were $3.0 billion and $4.2 billion for the years ended September 30, 2014 and 2013. Additionally, $7.8 billion and $9.9 billion of nonbudgetary resources including borrowing authority and collections of loan principal, interest and fees in financing funds were reported for the years ended September 30, 2014 and 2013.

Permanent Indefinite Appropriations

The SBA receives permanent indefinite appropriations annually to fund increases in the projected subsidy costs of loan programs as determined by the reestimation process required by the Federal Credit Reform Act of 1990. The appropriations are received initially in the SBA Program Funds and then transferred to the Financing Funds where they are used to fund obligations. SBA's Liquidating Funds also receive permanent indefinite appropriations to fund obligations. The Financing Funds are used to account for credit program obligations made subsequent to FY 1991. Liquidating Funds are used to account for credit program obligations made prior to FY 1992.

Decreases in projected subsidy costs in the Financing Funds are returned to the Treasury through SBA's annual reestimation process. The prior year's ending unobligated balances in SBA's Liquidating Funds are also transferred to the Treasury annually.

Borrowing Authority and Terms of Borrowing

The SBA is authorized to borrow from the Treasury's Bureau of the Fiscal Service when funds needed to disburse direct loans and purchase guarantied loans exceed subsidy costs and collections in the nonbudgetary loan financing funds. In FY 2014 and FY 2013, the SBA received $0.8 billion and $1.5 billion of borrowing authority from the OMB. At the end of FY 2014, the SBA had $0.2 billion in borrowing authority carried over to fund direct loans and default claims to be disbursed in the future. At the end of FY 2013, the SBA had $0.3 billion in available borrowing authority. The SBA pays interest to the Treasury based on Treasury's cost of funds. The rate at which interest is paid to the Treasury on the amounts borrowed (or received from the Treasury on uninvested cash balances) in a loan financing fund for a particular cohort is a disbursement-weighted average discount rate for cohorts prior to FY 2001 and a single effective rate for cohorts beginning with FY 2001. The SBA calculates and repays borrowings not needed for working capital at midyear for prior year cohorts. The SBA uses the loan principal, interest and fees collected from the borrowers in its loan financing funds to repay its Treasury borrowings. The repayment maturity dates for the borrowing from the Treasury are based on the loan maturities used in the subsidy calculation. The maturities range from 16 years for Direct Business loans, 25 years for Guarantied Business loans and 30 years for Disaster loans.

Apportionment Categories of Obligations Incurred

During FY 2014 and FY 2013, the SBA incurred $5.1 billion and $8.6 billion of direct and reimbursable obligations of which $0.0 billion and $0.6 billion was apportioned in category A; $5.1 billion and $8.0 billion was apportioned in category B. Category A apportionments are restricted by quarter and program; category B apportionments are restricted by purpose and program.

Unobligated Balances

Unobligated balances at September 30, 2014 and 2013 are $5.7 billion and $5.4 billion which include $3.7 billion and $4.0 billion of unavailable unobligated balances. These balances are unavailable primarily because they are unapportioned by the OMB. The SBA accumulates the majority of these unobligated balances in its nonbudgetary financing accounts during the fiscal year ($4.3 billion in FY 2014 and $4.1 billion in FY 2013) from reestimates that are used primarily to pay default claims in the following fiscal year. In addition, unobligated balances are accumulated in budgetary accounts from appropriations ($1.4 billion in FY 2014 and $1.3 billion in FY 2013) that are used to finance SBA's ongoing program operations. The SBA requests OMB apportionments as needed, and after OMB approval, apportioned amounts are available for obligation.

Undelivered Orders

Undelivered orders are obligations that have not yet been disbursed by the SBA. Undelivered orders for the periods ended September 30, 2014 and 2013 were $0.6 billion and $1.2 billion.

Differences between the Statement of Budgetary Resources and the Budget of the U. S. Government

There was no material difference between the FY 2013 Statement of Budgetary Resources and the President's FY 2015 budget submission. The President's Budget with actual numbers for FY 2016 has not yet been published. The SBA expects no material differences between the President's Budget "actual" column and the FY 2014 reported results when the budget becomes available in February 2015.

NOTE 16 RECONCILIATION OF BUDGETARY OBLIGATIONS INCURRED TO NET COST OF OPERATIONS

The SBA presents the Statement of Net Cost using the accrual basis of accounting. This differs from the obligation-based measurement of total resources supplied, both budgetary and from other sources, on the Statement of Budgetary Resources.

The Federal Financial Accounting Standard No. 7 requires "a reconciliation of proprietary and budgetary information in a way that helps users relate the two." The focus of this presentation is to reconcile budgetary net obligations to the net cost of operations. The objective of this information is to categorize the differences between budgetary and financial (proprietary) accounting.

SUCCESS STORY: Bold Ideas and Customer Focus Pay Off

Myers-Seth Pump, Jacksonville, Florida

Teresa Myers, an immigrant from Vietnam, is CEO of Myers-Seth Pump (MSP), a company that manufactures pumps and dewatering equipment throughout the United States and abroad. She and her husband, **Douglas Myers**, jointly own and operate the 14-year-old company.

MSP has faced its share of challenges. As a manufacturer of industrial and construction pumps for mining and construction industries, MSP was impacted by the economic crisis of 2009. Teresa Myers navigated through the recession by adding a pump rental division, providing training opportunities for her employees, and expanding the company's outreach to other industries, such as the oil and gas industry, and international markets. Another challenge was a set of fires that occurred onsite at their facility. The fires occurred during MSP's busiest production season, but the company was able to continue with very little interruption. In fact, most of MSP's customers were not even aware that they had a major fire. MSP also increased its revenue by almost 20 percent when it started exporting pumps overseas.

Teresa attributes her success to hard work, customer focus, and to the training she received as part of SBA's Emerging Leaders program. "Participating in the Emerging Leaders program gave me the most in-depth knowledge on how to effectively run a small business. I learned about structuring the business, profitability, planning, creating exit strategies, and scaling my business," she said. Teresa Myers also participated in SBA resource partner training and development programs through the Jacksonville Women's Business Center and the Small Business Development Center at the University of North Florida.

CONSOLIDATED RECONCILIATION OF BUDGETARY OBLIGATIONS TO NET COST

(Dollars in Thousands)

For the Years Ended September 30,	2014	2013
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	$ 5,114,412	$ 8,625,608
Less: Spending Authority from Offsetting Collections and Recoveries	4,584,340	5,431,669
Obligations Net of Offsetting Collections and Recoveries	530,072	3,193,939
Less: Offsetting Receipts	1,123,155	1,696,979
Net Obligations	**(593,083)**	**1,496,960**
Other Resources		
Imputed Financing	21,893	19,955
Other Financing Sources	(1,648,365)	(1,127,912)
Net Other Resources Used to Finance Activities	**(1,626,472)**	**(1,107,957)**
Total Resources Used to Finance Activities	**(2,219,555)**	**389,003**
RESOURCES THAT DO NOT FINANCE NET COST OF OPERATIONS		
(Increase) Decrease in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But Not Yet Provided	450,569	(371,232)
Resources that Fund Expenses Recognized in Prior Periods	(362,689)	(882,703)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations		
Credit Program Collections	3,923,558	4,540,597
Offsetting Receipts	1,123,155	1,696,979
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(3,591,420)	(5,224,054)
Other - Current Year Liquidating Equity Activity	3,218	3,992
Other Resources that Do Not Affect Net Cost of Operations	38	(27)
Total Resources that Do Not Finance Net Cost of Operations	**1,546,429**	**(236,448)**
Total Resources Used to Finance the Net Cost of Operations	**(673,126)**	**152,555**
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods		
Change in Annual Leave Liability	(510)	1,113
Change in Contingent Liability	464	–
Upward Reestimates of Credit Subsidy Expense	200,923	362,329
Change in Revenue Receivable from Public	(65)	(316)
Provision for Losses on Estimated Guaranties	4,795	8,423
Change in Unfunded Employee Benefits	1,136	2,112
Total Components Requiring or Generating Resources in Future Periods	**206,743**	**373,661**
Components Not Requiring or Generating Resources		
Depreciation or Amortization	2,252	459
Change in Bad Debt Expense - Pre-1992 Loans	(2,057)	(2,582)
Other (Income) Expenses Not Requiring Budgetary Resources	(206)	(7)
Total Components Not Requiring or Generating Resources	**(11)**	**(2,130)**
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**206,732**	**371,531**
Net Cost of Operations	**$ (466,394)**	**$ 524,086**

Liabilities Not Covered by Budgetary Resources on the Balance Sheet (Note 8) differs from Components Requiring or Generating Resources in Future Periods in this reconciliation primarily due to reestimated subsidy costs of loan programs. The subsidy costs are shown in the Statement of Net Cost and are to be covered by budgetary resources but these resources, while available under permanent and indefinite authority, were not provided by year-end. Additionally, there will always be a difference for existing liabilities because the Reconciliation of Budgetary Obligations Incurred to Net Cost of Operations reports only current year changes, not balances.

The following table details these differences:

(Dollars in Thousands)

As of September 30,		**2014**		**2013**
Current Year Liabilities Not Covered By Budgetary Resources	$	104,408	$	99,012
Less: Prior Year		99,012		87,637
Change in Liabilities Not Covered By Budgetary Resources		5,396		11,375
Upward Reestimates of Credit Subsidy Expense		200,923		362,329
Change in Revenue Receivable from Public		(65)		(316)
All Other		489		273
Components (of Net Cost) Generating Resources in Future Periods (Per Reconciliation Above)	**$**	**206,743**	**$**	**373,661**

SUCCESS STORY: Back in Business After Disaster Hits

Pachanga, Inc. d/b/a FIKA, New York, New York

FIKA, which means "coffee break" in Swedish, was the name **Lars Akerlund** gave to each of the five specialty coffee and chocolate cafés he opened in New York beginning in 2006. He was preparing for the New York Chocolate Show in October 2012 when Hurricane Sandy nearly destroyed his Manhattan location and a new place under construction in Tribeca. Flood waters poured into the basement and rose up to four feet on the first floor, destroying all the equipment and thousands of dollars of specially made treats for the chocolate show. Years of hard work were ruined in a matter of minutes, leaving Akerlund with uninsured losses in excess of half a million dollars.

Akerlund received an SBA disaster loan, and with the support of local customers and caring neighbors he started the rebuilding process. In February, he was able to open the new chocolate factory in Tribeca, and two months later the Manhattan location reopened.

Akerlund received the SBA's *2014 Phoenix Award for Outstanding Small Business Disaster Recovery.* The Phoenix Award is presented to business owners, public officials, and volunteers who display selflessness, ingenuity, and tenacity in the aftermath of a disaster, while contributing to the rebuilding of their communities. "The Phoenix Award acknowledges their heroic efforts and is a symbol of appreciation for their contributions to the economic recovery of their communities," said SBA Administrator Maria Contreras-Sweet.

"SBA Disaster Assistance saved us," said Akerlund. "I was so impressed by SBA. Everyone was so incredible."

REQUIRED SUPPLEMENTARY INFORMATION

Combining Statement of Budgetary Resources

For the year ended September 30, 2014 (unaudited)

(Dollars in Thousands)	BLIF		DLF		SBGRF	PCECGF
	Budgetary	**Nonbudgetary Financing**	**Budgetary**	**Nonbudgetary Financing**	**Budgetary**	**Budgetary**
BUDGETARY RESOURCES						
Unobligated Balance Brought Forward, October 1	$ 198,175	$ 3,620,112	$ 733,839	$ 516,675	$ 73,343	$ 1,119
Recoveries of Prior Year Obligations	29,898	3,954	34,815	313,144	55	–
Other Changes in Unobligated Balance	(19,965)	(136,244)	(3,552)	(829,550)	–	(1,119)
Unobligated Balance from Prior Year Budget Authority, net	208,108	3,487,822	765,102	269	73,398	–
Appropriations (discretionary and mandatory)	570,219	–	230,573	–	–	–
Borrowing Authority (discretionary and mandatory)	–	534,107	–	228,838	–	–
Spending Authority from Offsetting Collections	17	2,668,615	1	882,759	18,624	–
Total Budgetary Resources	**$ 778,344**	**$ 6,690,544**	**$ 995,676**	**$ 1,111,866**	**$ 92,022**	**$ –**
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred	$ 538,257	$ 2,825,064	$ 257,294	$ 628,150	$ 11,272	$ –
Unobligated Balance, end of year:						
Apportioned	55,049	1,161,522	72,826	424,716	19,439	–
Unapportioned	185,038	2,703,958	665,556	59,000	61,311	–
Total Unobligated Balance, end of year	240,087	3,865,480	738,382	483,716	80,750	–
Total Status of Budgetary Resources	**$ 778,344**	**$ 6,690,544**	**$ 995,676**	**$ 1,111,866**	**$ 92,022**	**$ –**
CHANGE IN OBLIGATED BALANCES						
Unpaid Obligations:						
Unpaid Obligations, Brought Forward, October 1	$ 232,361	$ 93,947	$ 67,554	$ 607,583	$ –	$ –
Obligations Incurred	538,257	2,825,064	257,294	628,150	11,272	–
Gross Outlays	(611,942)	(2,827,468)	(274,985)	(764,617)	(11,188)	–
Recoveries of Prior Year Unpaid Obligations	(29,898)	(3,954)	(34,815)	(313,144)	(55)	–
Unpaid Obligations, end of year	128,778	87,589	15,048	157,972	29	–
Uncollected Payments:						
Uncollected Payments, Federal sources brought forward, October 1	–	(228,902)	–	(67,617)	–	–
Change in Uncollected Payments, Federal Sources	–	101,021	–	52,489	–	–
Uncollected Payments, Federal Sources, end of year	–	(127,881)	–	(15,128)	–	–
Memorandum (non-add) entries:						
Obligated Balance, start of year	**$ 232,361**	**$ (134,955)**	**$ 67,554**	**$ 539,966**	**$ –**	**$ –**
Obligated Balance, end of year	**$ 128,778**	**$ (40,292)**	**$ 15,048**	**$ 142,844**	**$ 29**	**$ –**
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, gross (discretionary and mandatory)	$ 570,236	$ 3,202,722	$ 230,574	$ 1,111,597	$ 18,624	$ –
Actual Offsetting Collections (discretionary and mandatory)	(8,207)	(2,872,311)	(2,183)	(1,051,247)	(18,624)	(425)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	101,021	–	52,489	–	–
Budget Authority, net (discretionary and mandatory)	**$ 562,029**	**$ 431,432**	**$ 228,391**	**$ 112,839**	**$ –**	**$ (425)**
Gross Outlays (discretionary and mandatory)	$ 611,942	$ 2,827,468	$ 274,985	$ 764,617	$ 11,188	$ –
Actual Offsetting Collections (discretionary and mandatory)	(8,207)	(2,872,311)	(2,183)	(1,051,247)	(18,624)	(425)
Net Outlays (discretionary and mandatory)	603,735	(44,843)	272,802	(286,630)	(7,436)	(425)
Distributed Offsetting Receipts	–	(1,083,609)	–	(40,446)	–	–
Agency Outlays, net (discretionary and mandatory)	**$ 603,735**	**$ (1,128,452)**	**$ 272,802**	**$ (327,076)**	**$ (7,436)**	**$ (425)**

See Accompanying Auditors' Report.

REQUIRED SUPPLEMENTARY INFORMATION (continued)

Combining Statement of Budgetary Resources

For the year ended September 30, 2014

(Dollars in Thousands)	SE Budgetary	OIG Budgetary	ADVOCACY Budgetary	EDP Budgetary	BATF Budgetary	TOTAL Budgetary	TOTAL Nonbudgetary Financing	Total
BUDGETARY RESOURCES								
Unobligated Balance Brought Forward, October 1	$ 280,740	$ 9,173	$ 679	$ –	$ 131	$ 1,297,199	$ 4,136,787	$ 5,433,986
Recoveries of Prior Year Obligations	40,122	134	15	–	–	105,039	317,098	422,137
Other Changes in Unobligated Balance	(9,195)	(222)	–	–	–	(34,053)	(965,794)	(999,847)
Unobligated Balance from Prior Year Budget Authority, net	311,667	9,085	694	–	131	1,368,185	3,488,091	4,856,276
Appropriations (discretionary and mandatory)	249,500	19,000	8,750	196,665	–	1,274,707	–	1,274,707
Borrowing Authority (discretionary and mandatory)	–	–	–	–	–	–	762,945	762,945
Spending Authority from Offsetting Collections	361,672	1,001	1	–	41	381,357	3,551,374	3,932,731
Total Budgetary Resources	**$ 922,839**	**$ 29,086**	**$ 9,445**	**$ 196,665**	**$ 172**	**$ 3,024,249**	**$ 7,802,410**	**$ 10,826,659**
STATUS OF BUDGETARY RESOURCES								
Obligations Incurred	$ 635,606	$ 17,854	$ 8,628	$ 192,274	$ 13	$ 1,661,198	$ 3,453,214	$ 5,114,412
Unobligated Balance, end of year:								
Apportioned	236,415	9,456	817	4,391	155	398,548	1,586,238	1,984,786
Unapportioned	50,818	1,776	–	–	4	964,503	2,762,958	3,727,461
Total Unobligated Balance, end of year	287,233	11,232	817	4,391	159	1,363,051	4,349,196	5,712,247
Total Status of Budgetary Resources	**$ 922,839**	**$ 29,086**	**$ 9,445**	**$ 196,665**	**$ 172**	**$ 3,024,249**	**$ 7,802,410**	**$ 10,826,659**
CHANGE IN OBLIGATED BALANCES								
Unpaid Obligations:								
Unpaid Obligations, Brought Forward, October 1	$ 337,557	$ 1,601	$ 873	$ –	$ 5	$ 639,951	$ 701,530	$ 1,341,481
Obligations Incurred	635,606	17,854	8,628	192,274	13	1,661,198	3,453,214	5,114,412
Gross Outlays	(731,508)	(17,372)	(8,580)	(55,323)	(14)	(1,710,912)	(3,592,085)	(5,302,997)
Recoveries of Prior Year Unpaid Obligations	(40,122)	(134)	(15)	–	–	(105,039)	(317,098)	(422,137)
Unpaid Obligations, end of year	201,533	1,949	906	136,951	4	485,198	245,561	730,759
Uncollected Payments:								
Uncollected Payments, Federal sources brought forward, October 1	–	–	–	–	–	–	(296,519)	(296,519)
Change in Uncollected Payments, Federal Sources	–	–	–	–	–	–	153,510	153,510
Uncollected Payments, Federal Sources, end of year	–	–	–	–	–	–	(143,009)	(143,009)
Memorandum (non-add) entries:								
Obligated Balance, start of year	**$ 337,557**	**$ 1,601**	**$ 873**	**$ –**	**$ 5**	**$ 639,951**	**$ 405,011**	**$ 1,044,962**
Obligated Balance, end of year	**$ 201,533**	**$ 1,949**	**$ 906**	**$ 136,951**	**$ 4**	**$ 485,198**	**$ 102,552**	**$ 587,750**
BUDGET AUTHORITY AND OUTLAYS, NET								
Budget Authority, gross (discretionary and mandatory)	$ 611,172	$ 20,001	$ 8,751	$ 196,665	$ 41	$ 1,656,064	$ 4,314,319	$ 5,970,383
Actual Offsetting Collections (discretionary and mandatory)	(361,673)	(1,001)	(2)	–	(40)	(392,155)	(3,923,558)	(4,315,713)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	–	–	–	–	–	153,510	153,510
Budget Authority, net (discretionary and mandatory)	**$ 249,499**	**$ 19,000**	**$ 8,749**	**$ 196,665**	**$ 1**	**$ 1,263,909**	**$ 544,271**	**$ 1,808,180**
Gross Outlays (discretionary and mandatory)	$ 731,508	$ 17,372	$ 8,580	$ 55,323	$ 14	$ 1,710,912	$ 3,592,085	$ 5,302,997
Actual Offsetting Collections (discretionary and mandatory)	(361,673)	(1,001)	(2)	–	(40)	(392,155)	(3,923,558)	(4,315,713)
Net Outlays (discretionary and mandatory)	369,835	16,371	8,578	55,323	(26)	1,318,757	(331,473)	987,284
Distributed Offsetting Receipts	900	–	–	–	–	900	(1,124,055)	(1,123,155)
Agency Outlays, net (discretionary and mandatory)	**$ 370,735**	**$ 16,371**	**$ 8,578**	**$ 55,323**	**$ (26)**	**$ 1,319,657**	**$ (1,455,528)**	**$ (135,871)**

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

(Unaudited)

Stewardship Investments in Human Capital

Human Capital investments are expenses included in net cost for education and training programs that are intended to increase or maintain national economic productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. The definition excludes education and training expenses for federal personnel.

Small Business Development Centers deliver an array of services to small businesses and prospective business owners using an extensive network of lead centers and outreach locations. SBDCs deliver professional business advice and training assistance in key management areas to small business clients throughout the U.S. that generates business revenue, creates and retains jobs, and enhances local and regional economies.

SCORE is a nonprofit association comprised of over 11,000 volunteer mentors and business advice counselors that serve entrepreneurs with in-person mentoring, local training workshops, and online resources. SCORE adapts its structure and services to meet the needs of specific small businesses.

Women's Business Centers provide business advice and training assistance primarily to women entrepreneurs through over 100 non-profit educational centers across the nation. Many of the training courses focus on business and financial planning that help women entrepreneurs gain financial literacy. They also provide direct business advice to clients and help them access loans, federal contracts, and exporting opportunities.

Microloan Technical Assistance helps the smallest of small businesses become established and achieve success. Community-based intermediary lenders provide business-based training and technical assistance to microbusinesses. The program is an important source of training assistance for low-income, women, veteran, and minority entrepreneurs.

SBA's Consulting and Training Programs includes SBA's work to develop or expand business advice and training assistance programs focused on key areas, including underserved markets, procurement, exports, and emerging and expanding technological sectors. These small business counseling and training programs are provided by or facilitated through an SBA district office for the delivery of a structured program providing knowledge, information or experience on a business-related subject. Training is available on a number of subjects of interest to a small business person and may be delivered to an individual, a class, or online.

Veterans Outreach includes comprehensive outreach through veterans business outreach centers and technical assistance and training to transitioning veterans that are interested in starting a new or growing an existing business through programs such as Boots-to-Business, Veteran Women Igniting the Spirit of Entrepreneurship, and Entrepreneurship Boot Camp for Veterans with Disabilities.

All Other Training and Assistance Programs not separately detailed include PRIME Technical Assistance, Native American Outreach and the 7(j) program.

Performance results are provided in the Management's Discussion and Analysis section of SBA's Agency Financial Report in "SBA by the Numbers" and "Summary of Key SBA Programs".

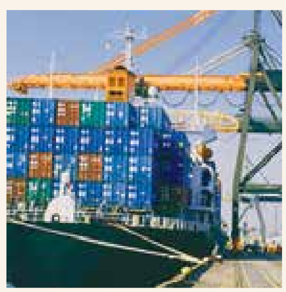
Significant Human Capital investments occur within the following programs:

(Dollars in Thousands)

For the Five Years Ended September 30,	2014	2013	2012	2011	2010
Small Business Development Centers	$ 154,400	$ 93,427	$ 152,835	$ 123,097	$ 130,046
SCORE	5,758	10,894	9,331	14,094	11,134
Women's Business Centers	24,842	21,049	25,006	13,080	16,924
Microloan Technical Assistance	21,552	16,525	22,487	30,485	23,426
SBA's Consulting and Training Programs	54,620	44,313	28,365	28,006	20,576
Veterans Outreach	13,244	–	–	–	–
All Other Training and Assistance Programs	12,832	6,924	12,689	8,603	37,055
Total	**$ 287,248**	**$ 193,132**	**$ 250,713**	**$ 217,365**	**$ 239,161**

Note: FY 2013 amounts above differ from the published year-end FY 2013 amounts due to the change in the net cost allocations (see Note 14).

Other Information



SUCCESS STORY: Making Jobs Accessible to Vets

Knight Solutions,
Leesburg, Virginia

Kevin L Knight, President and CEO of Knight Solutions, is SBA's *2014 Virginia Small Business Person of the Year*. A military man, Knight was forced to retire when a training accident injured his eyes by detaching his retinas. His career path was forever changed, but during the healing process, he developed a vision of what he wanted to do for the rest of his life.

With mentoring from the Fairfax County Small Business Development Center and a $50,000 SBA Patriot Express loan, Kevin started Knight Solutions. The company is an 8(a) certified and service-disabled veteran-owned Virginia-based small business with mostly veteran employees. Knight Solutions provides renovation, operation, and facility maintenance at national cemeteries throughout the country. The firm's 2012 revenue was $16.3 million, a spike of 1,400 percent in three years.

Before starting his business in 2005, Kevin Knight contacted the Department of Veterans Affairs and learned there were more than 100 national cemeteries that needed help. He saw an opportunity to build a business servicing those cemeteries. While Knight Solutions initially started out just doing landscaping, Kevin's vision was to take veterans who have seen action, bring them home, and give them a sense of ownership and responsibility.

U. S. Small Business Administration

Schedule of Spending

For the Years Ended September 30, 2014 and 2013 (Unaudited)

(Dollars in Thousands)

	2014			2013		
	Budgetary	Non-budgetary Financing	Total	Budgetary	Non-budgetary Financing	Total
What Money is Available to Spend?						
Total Resources	$ 3,024,249	$ 7,802,410	$ 10,826,659	$ 4,179,528	$ 9,880,066	$ 14,059,594
Less Amount Available but Not Agreed to be Spent	398,548	1,586,238	1,984,786	594,338	854,066	1,448,404
Less Amount Not Available to be Spent	964,503	2,762,958	3,727,461	702,861	3,282,721	3,985,582
Total Amounts Agreed to be Spent	**$ 1,661,198**	**$ 3,453,214**	**$ 5,114,412**	**$ 2,882,329**	**$ 5,743,279**	**$ 8,625,608**

	Budgetary	Non-budgetary Financing	Total	Budgetary	Non-budgetary Financing	Total
How was the Money Spent?						
Salary & Benefits	$ 410,302	$ –	$ 410,302	$ 482,517	$ –	$ 482,517
Grants	177,934	–	177,934	172,650	–	172,650
Rents	45,461	–	45,461	46,046	–	46,046
Contracts	116,398	–	116,398	92,711	–	92,711
Travel	10,305	–	10,305	34,068	–	34,068
Other Administrative Expenses	84,049	–	84,049	47,706	–	47,706
Telecommunications	9,926	–	9,926	10,915	–	10,915
Surety Bonds Defaults	11,273	–	11,273	4,682	–	4,682
Business Loans	50,356	55,156	105,512	50,049	55,348	105,397
Business Loan Guarantees	487,900	2,769,909	3,257,809	1,330,606	4,036,685	5,367,291
Disaster Lending	257,294	628,149	885,443	610,379	1,651,246	2,261,625
Total Amounts Agreed to be Spent	**$ 1,661,198**	**$ 3,453,214**	**$ 5,114,412**	**$ 2,882,329**	**$ 5,743,279**	**$ 8,625,608**

	Budgetary	Non-budgetary Financing	Total	Budgetary	Non-budgetary Financing	Total
Who did the Money go to?						
Other Federal Agencies	$ 355,061	$ 1,469,413	$ 1,824,474	$ 573,660	$ 2,059,960	$ 2,633,620
Public Individuals and Organizations	1,306,137	1,983,801	3,289,938	2,308,669	3,683,319	5,991,988
Total Amounts Agreed to be Spent	**$ 1,661,198**	**$ 3,453,214**	**$ 5,114,412**	**$ 2,882,329**	**$ 5,743,279**	**$ 8,625,608**

The Schedule of Spending was developed to bridge the gap between budgetary accounting reports, such as the Statement of Budgetary Resources, and the public's desire for a transparent view of how federal money was spent. The SOS allows the reader to review SBA's spending in more understandable terms and also provides the public with a high level view of who benefited from federal funds.

To obtain a more detailed view of SBA's beneficiaries, the public can access general information about individual awards on USASpending.gov. The data provided on the USAspending.gov website however does not include all spending information provided in the SBR and SOS. For example, SBA is primarily a federal credit agency and SBA's nonbudgetary financing items, which are related to the direct and guarantee loan guarantee programs, are not included on USAspending.gov.

OIG REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES

Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration In Fiscal Year 2015

October 17, 2014 **REPORT NUMBER 15-01**

U.S. Small Business Administration
Office of Inspector General
Washington, D.C. 20416

MEMORANDUM
MANAGEMENT CHALLENGES

DATE: October 17, 2014
TO: Maria Contreras-Sweet
Administrator

FROM: Peggy E. Gustafson
Inspector General

SUBJECT: *Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2015*

In accordance with the Reports Consolidation Act of 2000, we are providing you with the Office of Inspector General's (OIG) Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration (SBA) in Fiscal Year (FY) 2015.

This report represents our current assessment of Agency programs and/or activities that pose significant risks, including those that are particularly vulnerable to fraud, waste, error, mismanagement, or inefficiencies. The Challenges are not presented in order of priority, as we believe that all are critical management or performance issues.

Our report is based on specific OIG, Government Accountability Office (GAO), and other official reports, as well as our general knowledge of the SBA's programs and operations. Our analysis generally considers those accomplishments that the SBA reported as of September 30, 2014.

Within each Management Challenge, there are a series of "recommended actions" to resolve the Challenge. Each recommended action is assigned a color "status" score. The scores are as follows: green for "implemented," yellow for "substantial progress," orange for "limited progress," and red for "no progress." An arrow in the color box indicates that the color score went up or down from the prior year. If a recommended action was added since last year's report, no color score was assigned, and the recommended action has been designated as "new."

As part of the OIG's continuing evaluation of the Management Challenges, certain Challenges have been updated or revised. In addition, actions that were scored green last year, which remained green this year, have been moved up to the "history bar" above the recommended actions. The history bar highlights any progress that the Agency has made on a Challenge over the past four fiscal years (or as long as the Challenge has existed, if shorter) by showing the number of actions that have moved to green each year.

The following table provides a summary of the Most Serious Management and Performance Challenges Facing the SBA in FY 2015.

Table 1. Summary of the Most Serious Management and Performance Challenges Facing the SBA in FY 2015

		Color Scores					
		Status at End of FY 2014				Change from Prior Year	
	Challenge	**Green**	**Yellow**	**Orange**	**Red**	**Up ↑**	**Down ↓**
1	Small Business Contracting	1	1			1	
2	IT Security		3	2		1	1
3	Human Capital		3				
4	Loan Guaranty Purchase	1				1	
5	Lender Oversight		2			2	
6	8(a) Business Development Program			2	1		1
7	Loan Agent Fraud		1	2			
8	Loan Management and Accounting System		4			3	
9	Improper Payments – 7(a) program	2	4			1	
10	Improper Payments – Disaster Loan program	1				1	
11	Acquisition Management			5			
	TOTAL	**5**	**18**	**11**	**1**	**10**	**2**

We would like to thank the SBA's management and staff for their cooperation in providing us with information needed to prepare this report. We look forward to continuing to work with the SBA's leadership team in addressing the Agency's Management Challenges.

Challenge 1. Procurement flaws allow large firms to obtain small business awards, and allow agencies to count contracts performed by large firms towards their small business goals.

The Small Business Act established a Government-wide goal that 23 percent of the total value of all prime contracts be awarded to small businesses each fiscal year. As the advocate for small business, the SBA should strive to ensure that only small firms obtain and perform small business awards. Further, the SBA should ensure that procuring agencies accurately report contracts awarded to small businesses when representing their progress in meeting small business contracting goals.

In September 2014, we issued a report that identified over $400 million in FY 2013 contract actions that may have been awarded to ineligible firms. We also identified over $1.5 billion dollars in contract actions for which the firms were in the 8(a) or HUBZone programs at the time of contract award, but were no longer in these programs in FY 2013. Previous OIG audits and other Government studies have shown widespread misreporting by procuring agencies, since many contract awards that were reported as having gone to small firms have actually been performed by larger companies. While some contractors may misrepresent or erroneously calculate their size, most of the incorrect reporting results from errors made by Government contracting personnel, including misapplication of small business contracting rules. In addition, contracting officers do not always review the on-line certifications that contractors enter into Government databases prior to awarding contracts. The SBA should ensure that procuring agencies accurately report contracts awarded to small businesses when representing their progress in meeting small business contracting goals, and that contracting personnel are reviewing on-line certifications prior to awarding contracts.

The SBA revised its regulations to require firms to meet the size standard for each specific order to address a loophole within General Services Administration Multiple Awards Schedule (MAS) contracts, which contain multiple industrial codes that determine the size of the company. Previously, a company awarded an MAS contract could identify itself as a small business on individual task orders awarded under that contract, even though it did not meet the size criteria for the applicable task. Thus, agencies received small business credit for using a firm classified as small, when the firm was not small for specific orders under the MAS contract. In addition, the SBA submitted a final rule to the Federal Acquisition Regulations (FAR) Council to implement the changes made to its regulations in the FAR. The SBA also updated its standard operating procedure (SOP) to ensure consistency in conducting its surveillance reviews to assess Federal agencies' management of their small business programs and compliance with regulations and applicable procedures.

While the SBA has made substantial progress on this challenge, we are working with the Agency to verify that the surveillance reviews were conducted in a thorough and consistent manner.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years *(Challenge first reported in FY 2005)*	**2010: 0**	**2011: 1**	**2012: 1**	**2013: 0**

Recommended Actions for FY 2015	**Status at end of FY 2014**
1. Revise the surveillance review process to ensure that they are conducted in a thorough and consistent manner. *(Previously action 2)*	**Yellow**
2. Issue regulations that require firms to meet the size standard for each specific order they receive under a GSA schedule and Government-wide Acquisition Contract (GWAC) and show that the regulations are being followed. *(Previously action 3)*	**Green↑**

Green-Implemented **Yellow**-Substantial Progress **Orange**-Limited Progress **Red**-No Progress

Challenge 2. Weaknesses in information systems security controls pose significant risks to the Agency.

The SBA's computer security program operates in a dynamic and highly decentralized environment, and requires management attention and resources as weaknesses are continually identified. The SBA has shown progress in establishing an entity-wide incident management and response program, and has improved network port security access controls. However, the SBA still needs to address long-standing security weaknesses identified in 35 open information technology (IT) audit recommendations in the following areas:

- The SBA's system software controls have 6 open recommendations averaging more than 700 days past their original target corrective action date. These recommendations highlight significant security vulnerabilities, including establishing baseline configurations of the SBA's IT platforms; establishing an effective configuration management program; and patching operating systems, devices, and database management systems in a timely manner.
- The SBA's segregation of duty controls have 13 open recommendations averaging more than 500 days past their original target corrective action date. These recommendations include restricting access to system software, and effectively reviewing system and application logs.
- The SBA's IT security management program has 11 recommendations averaging more than 500 days past their original target corrective action date. Many of these vulnerabilities are statutory requirements which, if remediated, would improve the SBA's IT security oversight as well as improve the SBA's compliance with guidance provided in the Federal Information Security Management Act of 2002 (FISMA).

To show improvement in the above areas, the SBA's Office of the Chief Information Officer, in conjunction with the SBA's program offices, will need to implement tools and capabilities to provide effective oversight and continuously monitor computer security controls.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years *(Challenge first reported in FY 1999)*	**2010: 0**	**2011: 1**	**2012: 0**	**2013: 1**

Recommended Actions for FY 2015	**Status at end of FY 2014**
1. Access controls are in place and operating effectively, and contractors are not granted system access until they have obtained the required background investigations and/or security clearances.	**Yellow**
2. System software controls are in place and operating effectively.	**Orange↑**
3. Segregation of duty controls are in place and operating effectively.	**Orange**
4. The plan of action and milestones accurately reports all computer security weaknesses and corrective actions.	**Yellow↓**
5. The IT security management program is effective to address information security in systems that support the operations and assets of the organization.	**Yellow**

Green-Implemented **Yellow**-Substantial Progress **Orange**-Limited Progress **Red**-No Progress

Challenge 3. The SBA needs effective human capital strategies to carry out its mission successfully and become a high-performing organization.

The Office of Human Resource Solutions has taken significant steps toward addressing this management challenge, including ensuring an effective, comprehensive workforce and succession plan that aligns talent needs and capabilities with the Agency's 2011-2016 strategic plan. For example, in FY 2012, the SBA initiated a leadership development program designed to recruit and develop future leaders. In FY 2013, the SBA developed Agency-wide core competencies and training focused on those competencies, and issued a leadership succession plan. The SBA also launched its learning management system in FY 2014. Reported next steps include thoroughly reviewing work processes to ensure cross-functional understanding of SBA products and services and new required skills that reflect the Agency's mission and organizational priorities. In order to complete this recommended action, the SBA's workforce and succession planning goals should establish appropriate metrics to gauge its success at having the right people, in the right jobs, at the right time.

The SBA has also made substantial progress to update and establish standard operating procedures for human capital management. This recommended action was intended to encourage the Agency to update and establish critical procedures in support of its long-term goals and objectives and Government-wide human capital management initiatives. The Agency continues to make progress in this area. In FY 2014, the Agency issued SOPs for telecommuting, compensatory time for travel, and addressing domestic violence—all previously identified as agency priorities prior to FY 2014.

In accordance with the Office of Management and Budget (OMB) FY 2012 budget guidance, agencies are tasked with directing resources toward areas most needing improvement, as identified in the Employee Viewpoint Survey. The SBA established the "SBA Way" initiative to increase employee engagement and foster collaboration across the Agency. Charters outlining membership and responsibilities for the Executive Steering Committee and Action Planning Committee and subcommittees were finalized, and a process for soliciting and vetting suggestions from SBA employees regarding organizational improvement was established. Members were active throughout FY 2014 with plans to launch an employee training survey and employee recognition initiative in FY 2015.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years *(Challenge first reported in FY 2001, revised FY 2007)*	**2010: 0**	**2011: 0**	**2012: 0**	**2013: 1**

Recommended Actions for FY 2015	**Status at end of FY 2014**
1. Ensure the Agency has an effective, comprehensive workforce and succession plan that aligns talent needs and capabilities with the SBA's FY 2011-2016 strategic plan. The SBA's workforce and succession planning goals should reflect the need to recruit and retain the appropriate talent, and should establish appropriate metrics to gauge the SBA's success at having the right people, in the right jobs, at the right time.	**Yellow**
2. Ensure that human capital management SOPs are updated and appropriately structured to support the Agency's long-term goals and objectives and Government-wide human capital management initiatives. (Previously recommended action #3)	**Yellow**
3. Demonstrate sustained progress toward a high-performing, employee-driven culture through activity and effort as prioritized by the SBA's employee engagement initiative for two consecutive years (end of FY 2015) (Previously recommended action #4 – modified in February 2014).	**Yellow**

Green-Implemented **Yellow**-Substantial Progress **Orange**-Limited Progress **Red**-No Progress

Challenge 4. The SBA needs to implement a quality control program in its loan centers.

The Office of Financial Program Operations (OFPO) has made significant progress in developing and implementing a quality control (QC) program for all of its loan centers to verify and document compliance with the loan process, from origination to close-out, and to identify where material deficiencies may exist so that remedial action can be taken. Relevant parties within the Office of Capital Access have developed and agreed upon a QC project guide. The QC program will assess the overall quality of loan centers' deliverables to provide confidence to stakeholders. The SBA assigned a QC manager to oversee the development of the program and established QC specialist positions for each center. Furthermore, the SBA (1) developed and documented quality program manuals and review checklists for each center; (2) assessed center functions by risk to prioritize required QC reviews; (3) refined feedback, training and reporting processes; and (4) developed new systems to improve the tracking of quality control deficiencies and corrective actions.

While the SBA has made significant progress in implementing a QC program, further improvement is needed for the SBA to continue to demonstrate that all elements of the QC program are being completed, and that the program remains effective at identifying and correcting material deficiencies. For example, an FY 2014 OIG evaluation of the QC program determined that loan centers were not performing required reviews over significant loan center operations, and were not tracking corrective actions, as required. This report included two key recommendations to improve the QC program managed by the OFPO. The OFPO made significant progress during FY 2014 to address these remaining areas of weakness within the QC program. Additionally, QC reports submitted to the OIG at the end of the fiscal year continued to show that SBA loan centers did not always achieve the required levels of review. Finally, our reviews of the SBA's QC plans noted inconsistent coverage of loan center operations, which we brought to the SBA's attention.

In order to maintain a status of "implemented" for this challenge, the SBA must continue to demonstrate that the QC program is operating effectively. The OIG will continue to monitor the QC program during FY 2015 to verify that: (1) required QC reviews are being completed, (2) QC activities provide adequate coverage over loan center operations, and (3) QC reviews are effective at identifying and correcting material deficiencies.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years *(Challenge first reported in FY 2007)*	**2010: 1**	**2011: 0**	**2012: 0**	**2013: 0**
Recommended Actions for FY 2015				**Status at end of FY 2014**
1. Implement a quality control program for all SBA loan centers.				**Green↑**

Green-Implemented **Yellow**-Substantial progress **Orange**-Limited Progress **Red**-No progress

Challenge 5. The SBA needs to further strengthen its oversight of lending participants.

Prior OIG and GAO reports disclosed weaknesses in the SBA's oversight of the lenders that participate in its programs. In a September 2012 audit report, the OIG found that the SBA did not always recognize the significance of lender weaknesses or determine the risks they posed to the Agency during its onsite reviews. Additionally, the SBA did not link the risks associated with the weaknesses to the lenders' corresponding risk ratings and assessments of operations. Further, the SBA did not require lenders to correct performance problems that could have exposed the SBA to unacceptable levels of financial risk. The risks inherent in delegated lending require an effective oversight program to (1) monitor compliance with SBA policies and procedures, and (2) take corrective actions when a material noncompliance is detected.

Since this management challenge was first issued in 2001, the SBA has made significant progress in its oversight of lending participants. In FY 2013, the SBA (1) developed risk profiles and lender performance thresholds, (2) developed a select analytical review process to allow for virtual risk-based reviews, (3) updated its lender risk rating model to better stratify and predict risk, and (4) conducted test reviews under the new risk-based review protocol. These efforts have demonstrated that onsite reviews are now conducted on the highest-risk lending participants based on expanded selection criteria. In FY 2014, the SBA improved its monitoring and verification of corrective actions by lenders by: (1) developing corrective action assessment procedures, (2) finalizing a system to facilitate the corrective action process, and (3) populating the system with lender oversight results requiring corrective action. However, in order to fully resolve this management challenge, the SBA must demonstrate the effectiveness of the process for monitoring and verifying lenders' implementation of corrective actions.

Number of Actions Accomplished (Green Status) During Past Four Fiscal Years *(Challenge first reported in FY 2001)*	**2010: 0**	**2011: 0**	**2012** **7(a) loans: 1** **504 loans: 1**	**2013** **7(a) loans: 2** **504 loans: 2**

Recommended Actions for FY 2015	**Status at end of FY 2014**	
	7(a)	**504**
1. Monitor and verify implementation of corrective actions to ensure effective resolution prior to close-out. *(Previously Recommended Action #3)*	**Yellow↑**	**Yellow↑**

Green-Implemented **Yellow**-Substantial progress **Orange**-Limited Progress **Red**-No progress

Challenge 6. The SBA needs to modify the Section 8(a) Business Development Program so more firms receive business development assistance, standards for determining economic disadvantage are justifiable, and the SBA ensures that firms follow 8(a) regulations when completing contracts.

The SBA's 8(a) Business Development (BD) Program was created to assist eligible small disadvantaged business concerns to compete in the American economy through business development. Previously, the SBA did not place adequate emphasis on business development to enhance the ability of 8(a) firms to compete, and did not adequately ensure that only 8(a) firms with economically disadvantaged owners in need of business development remained in the program. Companies that were "business successes" were allowed to remain in the program and continue to receive 8(a) contracts, causing fewer companies to receive most of the 8(a) contract dollars and many to receive none.

The SBA has made progress towards addressing issues that hinder its ability to deliver an effective 8(a) BD Program. For example, the SBA expanded its ability to provide assistance to program participants through its resource partners—small business development centers, service corps of retired executives, and procurement technical assistance centers. In addition, the SBA has taken steps to ensure business opportunity specialists assess program participants' business development needs during site visits. The SBA also revised its regulations, effective March 2011, to ensure that companies deemed "business successes" graduate from the program. These regulations also establish additional standards to address the definition of "economic disadvantage." Agency officials stated that the rule-making process served as an adequate proxy to objectively and reasonably determine effective measures for economic disadvantage, and were not aware of any reliable sources of data to determine economic disadvantage.

However, for the second consecutive year, the SBA has not completed updating its SOP for the 8(a) BD Program to reflect the March 2011 regulatory changes. In addition, we continue to maintain that the SBA's standards for determining economic disadvantage are not justified or objective based on the absence of economic analysis. In December 2011, the SBA awarded a contract to develop and deploy a new IT system by December 2012 to assist the SBA in monitoring 8(a) program participants. However, the new system has not been deployed, and its delivery date and capabilities are undetermined at this time.

Number of Actions Accomplished (Green Status) During Past Four Fiscal Years *(Challenge first reported in FY 2003)*	**2010: 0**	**2011: 0**	**2012: 0**	**2013: 0**

Recommended Actions for FY 2015	**Status at end of FY 2014**
1. Develop and implement a plan, including SOP provisions, which ensures that the 8(a) BD Program identifies and addresses program participants' business development needs on an individualized basis.	**Orange**
2. Develop and implement regulations and SOP provisions to ensure that participants graduate once they reach the levels defined as "business success."	**Orange↓**
3. Establish objective and reasonable criteria that effectively measure "economic disadvantage," and implement the new criteria.	**Red**

Green-Implemented **Yellow**-Substantial Progress **Orange**-Limited Progress Red-No Progress

Challenge 7. Effective tracking and enforcement would reduce financial losses from loan agent fraud.

For years, OIG investigations have revealed a pattern of fraud by loan packagers and other for-fee agents in the 7(a) Loan Program involving hundreds of millions of dollars. Yet the SBA's oversight of loan agents has been limited, putting taxpayer dollars at risk. The Agency could reduce this risk through effective loan agent disclosure requirements, a database or equivalent means to track loan agent activity, updated regulations, new guidance for lenders, and a registration system.

Tracking Loan Agent Data. In response to this Challenge, the SBA has proposed various methods of tracking loan agent activity. The SBA eventually decided to have lenders fax a loan agent disclosure form (Form 159) to the SBA's fiscal and transfer agent (FTA) and require the FTA to enter the data into a database accessible to the SBA. The SBA also began to link Form 159 information with its loan data. Despite some data problems, quality is improving. Moreover, the FTA is testing an automated Form 159.

Updating Regulations. Any Government enforcement program requires effective regulations and procedures. In response to OIG concerns that the SBA loan agent enforcement regulations are outdated, the SBA drafted revised regulations that the OMB is reviewing.

Notice of SBA Enforcement Actions. Lenders need to ensure that agents involved with their loans have not been subject to enforcement action by the SBA. The SBA now lists the names of loan agents and others named in SBA enforcement actions on its website, and updated an SOP in FY 2014 to instruct lenders to consult this list to avoid problematic loan agents.

Registration System. The SBA needs to develop a system to assign a unique identifier to loan agents that participate in the 7(a) program. Without these identifiers, the SBA cannot effectively track loan agents to ensure suspended agents do not simply change their name and continue participating in the program. The SBA has not committed to implementing a registration system, and is waiting for the OIG to complete an audit on loan agents. As such, the OIG has not assigned a color to this action.

Number of Actions Accomplished (Green Status) During Past Four Fiscal Years *(Challenge first reported in FY 2000)*	**2010: 0**	**2011: 0**	**2012: 1**	**2013: 0**

Recommended Actions for FY 2015	**Status at end of FY 2014**
1. Develop an effective method of disclosing and tracking loan agent involvement in SBA business loan programs.	**Yellow**
2. Update regulations (13 CFR Part 103) regarding loan agents to provide effective enforcement procedures.	**Orange**
3. Issue guidance that lenders must (1) review the SBA's webpage list of loan agents that have been subject to an enforcement action and (2) refrain from doing business with any agent appearing on the list during the time that an agent is suspended or revoked from the 7(a) program.	**Orange**
4. Implement a loan agent registration system, including the issuance of a unique identifying number for each agent.	New

Green-Implemented **Yellow**-Substantial Progress **Orange**-Limited Progress **Red**-No Progress

Challenge 8. The SBA needs to modernize its Loan Accounting System and migrate it off the mainframe.

The Loan Accounting System is the core system of record used to account for the SBA's $106.8 billion loan portfolio. In November 2005, the SBA initiated the loan management accounting system (LMAS) project. Since 2010, the LMAS modernization effort has been structured into multiple components or incremental improvement projects (IIPs). This project has been reviewed by GAO and was the subject of a Congressional hearing in 2012.[1] The SBA has issued reports to Congress regarding project progress, with the most recent issued in March 2014.

In September 2014, the OIG issued a report assessing project progress and oversight controls. We reported that the SBA needs to improve its management oversight of the individual LMAS Incremental Improvement Projects (IIP) and ensure management actions comply with the SBA's SOPs.

The LMAS project team is working on the Transition to Production Planning IIP. This IIP is critical to the overall success of the LMAS project because its completion is needed to move all of the SBA's financial data from an outdated mainframe environment to a new, server-based operating platform.

Current plans call for the full completion of the mainframe migration by December 2014 and project completion by February 2015. The SBA also anticipates that the LMAS IIPs' cost will not exceed its revised FY 2010 project estimate of $97.3 million.

Number of Actions Accomplished (Green Status) During Past Four Fiscal Years (Challenge first reported FY 2010)	**2010: 0**	**2011: 0**	**2012: 0**	**2013: 0**

Recommended Actions for FY 2015	**Status at end f FY 2014**
1. Migrate LMAS to a new operating platform before the current mainframe contract expires in 2015.	**Yellow**
2. Modify the LMAS quality assurance/independent verification and validation (IV&V) contract and establish an effective quality assurance (QA) process which provides senior management independent assurance that LMAS development activities and related project deliverables meet SBA quality standards.	**Yellow↑**
3. Establish a process for reviewing and accepting LMAS deliverables that complies with quality assurance and systems development methodology requirements. This includes hiring or fully staffing an IV&V entity to validate deliverable acceptance.	**Yellow↑**
4. Implement a quality assurance process in LMAS in accordance with the SBA's Enterprise QA Plan.	**Yellow↑**

Green-Implemented **Yellow**-Substantial Progress **Orange**-Limited Progress **Red**-No Progress

[1] Report GAO-12-295, *SBA Needs to Strengthen Oversight of Its Loan Management and Accounting System Modernization* issued January 2012.

Challenge 9. The SBA needs to accurately report, significantly reduce, and strengthen efforts to recover improper payments in the 7(a) Loan Program.

Previous OIG audits have determined that reported improper payment rates for 7(a) loan approvals and purchases were significantly understated because the SBA did not adequately review loans, used flawed sampling methodologies, and did not accurately project review findings. In FY 2011, the SBA's reported improper payment rate for 7(a) purchases was 1.73 percent, or $40.7 million, when the rate could have been as high as 20 percent, or about $472 million. Furthermore, in FY 2011, the SBA reported no improper payments for 7(a) loan approvals.

However, an FY 2011 OIG audit estimated that at least 1,196 Recovery Act 7(a) loans were not originated and closed in compliance with SBA requirements, resulting in at least $869.5 million in inappropriate or unsupported loan approvals.

Further, recent OIG audits have identified 7(a) loans that were ineligible, lacked repayment ability, or were not properly closed. In 2012, we reported that the limited reviews of lender underwriting performed during guaranty purchase reviews were contrary to SBA procedures, resulting in improper payments. We also reported that high-dollar, early-defaulted loans were not reviewed with the scrutiny required to identify improper payments. In 2013, we reported that the SBA made $4.6 million of improper payments on high-dollar early-defaulted 7(a) loans. In 2014, we reported that six SBA approved loans with material underwriting deficiencies defaulted, resulting in $4.8 million in unnecessary losses.

The Office of Capital Access (OCA) has taken actions to correct many of these deficiencies. The OCA has (1) formalized its improper payment sampling; (2) demonstrated that its review process is effective for 7(a) loan approvals; (3) formalized its process to review disputed cases; (4) formalized the recovery process and time standards for 7(a) purchases; (5) developed appropriate corrective action plans for 7(a) loans; and (6) established repayment ability review requirements that are effective at identifying improper payments. However, additional actions are needed. The OCA needs to demonstrate that its process over disputed cases is ensuring adequate and timely resolution. Additionally, the OCA needs to demonstrate that it is adhering to recovery time standards and that corrective action plans for the 7(a) loan program are effective.

Actions Accomplished (Green Status) During Past Four Fiscal Years *(Challenge first reported FY 2010)*	**2010: 0**	**2011: 0**	**2012: 0**	**2013** **7(a) approvals: 1** **7(a) Purchases: 0**

Recommended Actions for FY 2015	**Status at end of FY 2014**	
	7(a) Approvals	**7(a) Purchases**
1. Ensure that processes for 7(a) loan approvals and purchases are designed and implemented to effectively identify improper payments as defined by OMB Circular A-123.	**Green**	**Green↑**
2. Reassign responsibility for final approval of disputed denial, repair, and improper payment decisions from the Office of Financial Assistance (OFA) to the Office of Credit Risk Management (OCRM) to ensure an adequate and timely resolution of disputes.	**N/A**	**Yellow**
3. Establish a process and time standards to expeditiously recover improper payments identified during Agency reviews and OIG audits.	**N/A**	**Yellow**
4. Demonstrate that corrective action plans are effective in reducing improper payments in the 7(a) Loan Program.	**Yellow**	**Yellow**

Green-Implemented Yellow-Substantial Progress **Orange**-Limited Progress **Red**-No Progress

Challenge 10. The SBA Needs to Significantly Reduce Improper Payments in the Disaster Loan Program.

Previous OIG audits of the SBA's Disaster Loan program determined that the improper payment rates reported for this program were significantly understated. The SBA estimated that improper payments in the Disaster Loan program were about $4.5 million, or 0.55 percent of loans approved in FY 2007, while the OIG reported that it was at least 46 percent, or approximately $1.5 billion. The SBA's improper payment rates were understated because the SBA did not adequately review sampled loans, used flawed sampling methodologies, and did not accurately project review findings for the program.

Previously, Management Challenge 9 included both the Disaster Loan program and 7(a) program. There were three recommended actions applicable to the Disaster Assistance Program. Of the three recommended actions, one was implemented during FY 2010 and the two remaining actions were implemented during FY 2011. One recommended action was to develop and implement a corrective action plan to reduce improper payments. Although the Office of Disaster Assistance (ODA) implemented the recommended action, the SBA has not achieved its reduction targets since implementation. Specifically, the Agency missed its target goals of 16.7 percent for FY 2010, 20.0 percent for FY 2011, and 17.0 percent for FY 2012, instead reporting rates of 34.2 percent, 28.4 percent, and 17.9 percent, respectively.

At the end of FY 2011, a new recommended action was added requiring the SBA to demonstrate that the corrective action plan is effective in reducing improper payments in the Disaster Assistance Program. The Agency has implemented an improved corrective action plan that specifically addresses root causes and provides specific remedies, such as targeted training and inclusion of improper payments in personal business commitment plans for employees. If properly implemented, we believe this course of action should effectively reduce the improper payment rate in future years. The SBA's internal improper payment assessment for FY 2014 indicated a rate of 12 percent. This rate is lower than the 17 percent target rate necessary to achieve a green rating. Therefore, the color status for FY 2014 is green.

Actions Accomplished (Green Status) During Past Four Fiscal Years *(Challenge first reported FY 2012)*	**2010: N/A**	**2011: N/A (New)**	**2012: 0**	**2013: 0**

Recommended Actions for FY 2015	**Status at end of FY 2014**
1. Demonstrate that corrective action plans are effective in reducing improper payments in the Disaster Loan program.	**Green↑**

Green Implemented   **Yellow**-Substantial Progress   **Orange**-Limited Progress   **Red**-No Progress

Challenge 11: The SBA Needs to Effectively Manage the Acquisition Program

The SBA has taken steps to improve the acquisition process by providing training to acquisition personnel, conducting acquisition planning, and using the Contract Review Board for making acquisition decisions. While the SBA has made limited progress, challenges exist, including: (1) poorly defined requirements, (2) internal control deficiencies, (3) inadequate oversight of contractor performance, (4) high improper payments rate, and (5) an incomplete acquisition SOP.

We identified instances where the SBA inadequately planned and defined its requirements for the procurement of IT products and services. While the SBA interfaced the contract management system with the financial system, users continue to experience system operations issues. The SBA also continued to inadequately monitor contract performance, which does not ensure that products and services are delivered according to contract requirements. Additionally, the SBA reported an increase in the improper payment rate for disbursements of goods and services from 9.6 percent in FY 2012 to 11.6 percent in FY 2013. Further, its acquisition SOP does not include procedures to use modular contracting for major system acquisitions, the use of interagency acquisitions, or define post award contract administration requirements.

In July 2014, the Office of the Chief Financial Officer (OCFO) awarded a contract to perform an assessment of its acquisition function required in the OMB's memorandum for Chief Acquisition Officers: *Conducting Acquisition Assessments under OMB Circular A-123*, May 21, 2008.

Actions Accomplished (Green Status) During Past Four Fiscal Years *(Challenge first reported FY 2013)*	**2010: N/A**	**2011: N/A**	**2012: N/A (New)**	**2013: 0**

Recommended Actions for FY 2015	**Status at end of FY 2014**
1. Complete an assessment of the Agency's acquisition activities using the OMB's *Guidelines for Assessing the Acquisition Function*.	**Orange**
2. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the organizational alignment and leadership assessment area.	**Orange**
3. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the acquisition policies and processes assessment area (i.e. acquisition management SOP).	**Orange**
4. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the acquisition workforce assessment area.	**Orange**
5. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the knowledge management and information systems assessment area.	**Orange**

Green-Implemented **Yellow**-Substantial progress **Orange**-Limited Progress **Red**-No progress

Appendix: Relevant Reports

Most of the SBA OIG Reports listed can be found at http://www.sba.gov/office-of-inspector-general.

Challenge 1

Small Business Administration Office of Inspector General

- *Agencies are Overstating Small Disadvantaged Business and HUBZone Goaling Credit by Including Contracts Performed by Ineligible Firms*, Report 14-18 (September 24, 2014).
- *Opportunities Exist for the SBA to Improve the Monitoring of Non-Manufacturer Rule Waivers and Determine the Impact on Small Businesses*, Report 14-15 (August 14, 2014).
- *A Non-Manufacturer Rule Waiver Allowed an 8(a) Recovery Act Contract to Bypass Established Small Business Requirements*, Report 12-19 (September 4, 2012).
- *SBA's Planning and Award of the Customer Relationship Management Contracts*, ROM 10-16 (June 29, 2010).
- *Review of Selected Small Business Procurements*, Report 5-16 (March 8, 2005).
- *SBA Small Business Procurement Awards Are Not Always Going to Small Businesses*, Report 5-14 (February 24, 2005).
- *Audit of SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders*, Report 4-16 (March 17, 2004). pp. 8-9.

Government Accountability Office

- *Contract Management: Reporting of Small Business Contract Awards Does Not Reflect Current Business Size*, GAO-03-704T (May 7, 2003).

The Small Business Committee

- The Small Business Committee, U.S. House of Representatives Hearing, *Are Big Businesses Being Awarded Contracts Intended for Small Businesses?* Testimony of Mr. Fred C. Armendáriz, Associate Deputy Administrator, SBA, (May 7, 2003).
- The Small Business Committee, U.S. House of Representatives Hearing, *Are Big Businesses Being Awarded Contracts Intended for Small Businesses?* Testimony of Mr. Felipe Mendoza, Associate Administrator, Office of Small Business Utilization, U.S. General Services Administration, (May 7, 2003).

Other

- *Interagency Task Force on Federal Contracting Opportunities for Small Businesses Report* (September 2010).
- SBA Advocacy, *Analysis of Type of Business Coding for the Top 1,000 Contractors Receiving Small Business Awards in FY 2002* (December, 2004).
- The Center for Public Integrity, *The Big Business of Small Business: Top defense contracting companies reap the benefits meant for small businesses* (September 29, 2004).
- The Center for Public Integrity, *The Pentagon's $200 Million Shingle: Defense data shows billions in mistakes and mislabeled contracts* (September 29, 2004).

Challenge 2

Small Business Administration Office of Inspector General

- *Weaknesses Identified During the FY 2013 Federal Information Security Management Act Review*, Report 14-12 (April 30, 2014).
- *Independent Auditors' Report on the SBA's FY 2013 Financial Statements*, Report 14-04 (December 16, 2013).
- *Audit of SBA's FY 2012 Financial Statements,* Report 13-04 (November 14, 2012).
- *Weaknesses Identified During the FY 2011 Federal Information Security Management Act Review*, Report 12-15 (July 16, 2012).
- *Audit of SBA's FY 2011 Financial Statements*, Report 12-02 (November 14, 2011).
- *Weaknesses Identified During the FY 2010 Federal Information Security Management Act Review*, Report 11-06 (January, 28, 2011).
- *Audit of SBA's FY 2010 Financial Statements*, Report 11-03 (November 12, 2010).
- *Audit of SBA's FY 2009 Financial Statements*, Report 10-04 (November 13, 2009).
- *SBA's FY2008 Financial Statements*, Report 9-03 (November 14, 2008).
- *Audit of SBA's Financial Statements for FY 2006*, Report 7-03 (November 15, 2006).
- *Audit of SBA's Information System Controls for FY 2004*, Report 5-12 (February 24, 2005).

Challenge 3

Small Business Administration Office of Inspector General

- *Significant Opportunities Exist to Improve the Management of the 7(a) Loan Guaranty Approval Process*, Report 14-13 (June 6, 2014).
- *The Colorado District Office's Servicing of 8(A) Business Development Program Participants,* Report 10-15 (September 30, 2010).
- *Adequacy of Procurement Staffing and Oversight of Contractors Supporting the Procurement Function*, ROM 10-13 (April 9, 2010).

Government Accountability Office

- GAO, *Office of Advocacy Needs to Improve Controls over Research, Regulatory, and Workforce Planning Activities,* GAO-14-525 (July 22, 2014).
- *Federal Workforce - Human Capital Management Challenges and the Path to Reform*, GAO-14-723T (July 15, 2014).

Office of Personnel Management

- *2010 Federal Employee Viewpoint Survey*.
- *2011 Federal Employee Viewpoint Survey.*

Partnership for Public Service

- *Best Places to Work in the Federal Government 2011.*
- *Best Places to Work in the Federal Government 2010.*

Challenge 4

Small Business Administration Office of Inspector General

- *Improvement is Needed to Ensure Effective Quality Control at Loan Operation Centers*, Report 14-08 (January 17, 2014).
- *A Detailed Repayment Ability Analysis is Needed on High-Dollar Early-Defaulted Loans to Prevent Future Improper Payments*, Report 12-18 (August 16, 2012).
- *High-Dollar Early-Defaulted Loans Require an Increased Degree of Scrutiny and Improved Quality Control at the National Guaranty Purchase Center*, Report 12-11R (March 23, 2012).

- *SBA Generally Meets IPERA Reporting Guidance but Immediate Attention Is Needed to Prevent and Reduce Improper Payments*, Report 12-10 (March 15, 2012).
- *Origination and Closing Deficiencies Identified In 7(a) Recovery Act Loan Approvals*, ROM 11-07 (September 30, 2011).
- *Material Deficiencies Identified in Five 7(a) Recovery Act Loans Resulted in $2.7 Million of Questioned Costs,* ROM 11-06 (August 25, 2011).
- *Banco Popular Did Not Adequately Assess Borrower Repayment Ability When Originating Huntington Learning Center Franchise Loans*, Report 11-16 (July 13, 2011).
- *Material Deficiencies Identified in Four 7(a) Recovery Act Loans Resulted in $3.2 Million of Questioned Costs*, ROM 11-05 (June 29, 2011).
- *America's Recovery Capital Loans Were Not Originated and Closed In Accordance With SBA's Policies and Procedures*, ROM 11-03 (March 2, 2011).
- *Material Deficiencies Identified in Early-Defaulted and Early-Problem Recovery Act Loans*, ROM 10-19 (September 24, 2010).
- *SBA's Management of the Backlog of Post-purchase Reviews at the National Guaranty Purchase Center*, Report 9-18 (August 25, 2009).
- *The Small Business Administration's Fiscal Year 2008 Improper Payment Rate for the 7(a) Guaranty Loan Program,* Report 9-16 (July 10, 2009).
- *Review of Key Unresolved OIG Audit Recommendations in Program Areas Funded by the American Recovery and Reinvestment Act and Related Activities Need to Safeguard Funds*, ROM 09-1
(April 30, 2009).
- *Audit of the Liquidation Process at the National Guaranty Purchase Center*, Report 9-08 (January 30, 2009).
- *Audit of Six SBA Guaranteed Loans*, Report 8-18 (September 8, 2008).
- *Audit of Loan Classifications and Overpayments on Secondary Market Loans*, Report 8-09 (March 26, 2008).
- *Audit of UPS Capital Business Credit's Compliance with Selected 7(a) Lending Requirements*, Report 8-08 (March 21, 2008).
- *Audit of the Guarantee Purchase Process for Section 7(a) Loans at the National Guaranty Purchase Center*, Report 7-23 (May 8, 2007).
- *Audit of Deficiencies in OFA's Purchase Review Process for Backlogged Loans*, Report 6-35 (September 29, 2006).
- *Survey of the Quality Assurance Review Process*, Report 6-26 (July 12, 2006).
- *Management Advisory Report on the Transfer of Operations to the National Guaranty Purchase Center,* Report 4-39 (August 31, 2004).

Government Accountability Office

- *Major Management Challenges and Program Risks*, GAO-01-260 (January 2001).

Challenge 5

Small Business Administration Office of Inspector General

- *The SBA's Portfolio Risk Management Program Can be Strengthened*, Report 13-17 (July 2, 2013).
- *Addressing Performance Problems of High-Risk Lenders Remains a Challenge for the Small Business Administration*, Report 12-20R (September 28, 2012).
- *SBA's Oversight of SBA Supervised Lenders*, Report 8-12 (May 9, 2008).
- *UPS Capital Compliance with Selected 7(a) Lending Requirements*, Report 8-08 (March 21, 2008).
- *SBA's Oversight of Business Loan Center*, LLC, Report 7-28 (July 11, 2007).
- *SBA's Use of the Loan and Lender Monitoring System*, Report 7-21 (May 2, 2007).
- *Audit of the Office of Lender Oversight Corrective Action Process*, Report 7-18 (March 14, 2007).

- *SBA's Administration of the Supplemental Terrorist Activity Relief (STAR) Loan Program*, Report 6-09 (December 23, 2005).
- *Impact of Loan Splitting on Borrowers and SBA*, Advisory Memorandum Report 2-31 (September 30, 2002).
- *Improvements needed in SBLC Oversight,* Advisory Memorandum Report 2-12 (March 20, 2002).
- *Preferred Lender Oversight Program*, Report 1-19 (September 27, 2001).
- *SBA Follow-up on SBLC Examinations*, Report 1-16 (August 17, 2001).

Government Accountability Office

- *Actions Needed to Improve the Usefulness of the Agency's Lender Risk Rating System*, GAO-10-53 (December 7, 2009).
- *Small Business Administration: Additional Measures Needed to Assess 7(a) Loan Program's Performance*, GAO-07-769 (July 13, 2007).
- *Small Business Administration: Improvements Made, But Loan Programs Face Ongoing Management Challenges*, GAO-06-605T (April 6, 2006).
- *Small Business Administration: New Service for Lender Oversight Reflects Some Best Practices, But Strategy for Use Lags Behind*, GAO-04-610 (June 8, 2004).
- *Continued Improvements Needed in Lender Oversight, Report 03-90* (December 2002).

Challenge 6

Small Business Administration Office of Inspector General

- *The SBA Did Not Follow Regulations and Guidance in the Acquisition of the OneTrack System,* Report 14-10 (February 12, 2014).
- *Audit on the Effectiveness of the SBA's Surveillance Review Process*, Report 11-11 (March 31, 2011).
- *Audit of Two 8(a) Sole –Source Contracts Awarded to Contractors in SBA's Mentor Protégé Program*, Report 7-19 (March 30, 2007).
- *Audit of Monitoring Compliance with 8(a) Business Development Regulations During 8(a) Business Development Contract Performance*, Report 6-15 (March 16, 2006).
- *Business Development Provided by SBA's 8(a) Business Development Program*, Report 4-22 (June 2, 2004).
- *SACS/MEDCOR: Ineffective and Inefficient*, Report 4-15 (March 9, 2004).
- *Section 8(a) Program Continuing Eligibility Reviews*, Report 4-3-H-006-021 (September 30, 1994).

Challenge 7

Small Business Administration Office of Inspector General

- *Applicant Character Verification in SBA's Business Loan Program*, Report 3-43 (April 5, 2001).
- *Summary Audit of Section 7(a) Loan Processing*, Report 0-03 (January 11, 2000).
- *Loan Agents and the Section 7(a) Program*, Report 98-03-01 (March 31, 1998).
- *Fraud Detection in SBA Programs*, Report 97-11-01 (November 24, 1997).
- *Operation Clean sweep,* Memorandum (August 21, 1996).

Challenge 8

Small Business Administration Office of Inspector General

- *Review of the LMAS Incremental Improvement Projects*, Report 14-21 (September 30, 2014).
- *The SBA's Loan Management and Accounting System – Incremental Improvement Projects,* Report 13-11 (March 12, 2013).
- *Adequacy of Quality Assurance Oversight of the Loan Management and Accounting System Project*, Report 10-14 (September 13, 2010).
- *Review of Allegations Concerning How the Loan Management and Accounting System Modernization Project is Being Managed*, Report 9-17 (July 30, 2009).

- *Planning for the Loan Management and Accounting System Modernization and Development Effort*, Report 8-13 (May 14, 2008).
- *SBA Needs to Implement a Viable Solution to its Loan Accounting System Migration Problem,* Report 5-29 (September 20, 2005).

Government Accountability Office

- *SBA Needs to Strengthen Oversight of Its Loan Management and Accounting System Modernization*, GAO-12-295 (January 25, 2012).
- *Information Technology: Agencies Need to Improve the Accuracy and Reliability of Investment Information*, GAO-06-250 (January 12, 2006).
- *Major Management Challenges and Program Risks: Small Business Administration*, GAO-03-116 (January 1, 2003).
- *SBA Loan Monitoring System: Substantial Progress Yet Key Risks and Challenges Remain*, Testimony of Joel C. Willemssen, Director, Civil Agencies Information Systems Accounting and Information Management Division, Before the Subcommittee on Government Programs Statement Committee on Small Business, House of Representatives, GAO/T-AIMD-00-113, (February 29, 2000).
- *SBA Needs to Establish Policies and Procedures for Key IT Processes, Accounting and Information Management Division,* GAO/AIMD-00-170 (May 31, 2000).

Challenge 9

Small Business Administration Office of Inspector General

- *Significant Opportunities Exist to Improve the Management of the 7(a) Loan Guaranty Approval Process*, Report 14-13 (June 6, 2014).
- *Purchase Reviews Allowed $3.1 Million in Improper Payments on 7(a) Recovery Act Loans*, Report 14-09 (January 29, 2014).
- *The Small Business Administration's Improper Payment Rate for 7(a) Guaranty Purchases Remains Significantly Underestimated,* Report 13-07 (November 15, 2012).
- *A Detailed Repayment Ability Analysis is Needed on High-Dollar Early-Defaulted Loans to Prevent Future Improper Payments*, Report 12-18 (August 16, 2012).
- *High-Dollar Early-Defaulted Loans Require an Increased Degree of Scrutiny and Improved Quality Control at the National Guaranty Purchase Center*, Report 12-11R (March 23, 2012).
- *SBA Generally Meets IPERA Reporting Guidance but Immediate Attention Is Needed to Prevent and Reduce Improper Payments*, Report 12-10 (March 15, 2012).
- SBA OIG, *Origination and Closing Deficiencies Identified In 7(a) Recovery Act Loan Approvals*, ROM 11-07 (September 30, 2011).
- *Material Deficiencies Identified in Five 7(a) Recovery Act Loans Resulted in $2.7 Million of Questioned Costs*, ROM 11-06 (August 25, 2011).
- *Banco Popular Did Not Adequately Assess Borrower Repayment Ability When Originating Huntington Learning Center Franchise Loans*, Report 11-16 (July 13, 2011).
- *Material Deficiencies Identified in Four 7(a) Recovery Act Loans Resulted in $3.2 Million of Questioned Costs*, ROM 11-05 (June 29, 2011).
- *America's Recovery Capital Loans Were Not Originated and Closed In Accordance With SBA's Policies and Procedures*, ROM 11-03 (March 2, 2011).
- *Material Deficiencies Identified in Early-Defaulted and Early-Problem Recovery Act Loans*, ROM 10-19 (September 24, 2010).
- *SBA's Management of the Backlog of Post-Purchase Reviews at the National Guaranty Purchase Center*, Report 9-18 (August 25, 2009).
- *The Small Business Administration's Fiscal Year 2008 Improper Payment Rate for the 7(a) Guaranty Loan Program*, Report 9-16 (July 10, 2009).
- *Audit of Borrower Eligibility for Gulf Coast Disaster Loans*, Report 9-09 (March 31, 2009).

- *The Small Business Administration's Fiscal Year 2007 Improper Payment Rate for the Disaster Loan Program*, Report 9-10 (March 26, 2009).
- *Audit of the Liquidation Process at the National Guaranty Purchase Center*, Report 9-08 (January 30, 2009).
- *The Use of Proceeds From Gulf Coast Disaster Loans*, Report 9-06 (January 15, 2009).
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- *Review of the Adequacy of Supporting Documentation for Disbursements*, Report 8-07 (January 29, 2008).
- *The Quality of Loans Processed Under the Expedited Disaster Loan Program*, Report 7-34 (September 28, 2007).
- *SBA's Quality Assurance Reviews of Loss Verifications*, Report 7-29 (July 23, 2007).
- *Securing Collateral for Disaster Loan Disbursements*, Report 7-22 (May 9, 2007).

Challenge 10

Small Business Administration Office of Inspector General

- *Origination and Closing Deficiencies Identified In 7(a) Recovery Act Loan Approvals*, ROM 11-07 (September 30, 2011).

Challenge 11

Small Business Administration Office of Inspector General

- *SBA's Progress in complying with the Improper Payments Elimination and Recovery Act,* Report 14-11 (April 10, 2014).
- *The SBA Did Not Follow Federal Regulations and Guidance in the Acquisition of the OneTrack System,* Report 14-10 (February 12, 2014).
- *The Small Business Administration's Process Could Lead to Possible Anti-Deficiency Act Violations,* Report 12-22 (September 28, 2012).
- *The Small Business Administration's Inappropriate Use of the Government Purchase Card for Construction Purchases*, Report 12-16 (August 6, 2012).
- *The SBA's Improper Payment Review and Reporting for its Contracting Activities did not Comply with IPERA and IPIA Requirements During FY 2011*, Report 12-07 (March 8, 2012).
- *Small Business Administration's Funding of Information Technology Contracts Awarded to Isika Technologies*, Inc., Report 11-14 (June 2, 2011).
- *SBA's Procurement of Information Technology Hardware and Software through Isika Technologies, Inc.,* Report 11-08 (February 25, 2011).
- *SBA's Planning and Award of the Customer Relationship Management Contracts,* ROM 10-16 (June 29, 2010).
- *Adequacy of Procurement Staffing and Oversight of Contractors Supporting the Procurement Function,* ROM 10-13 (April 9, 2010).
- *SBA's Efforts to Improve the Quality of Acquisition Data in the Federal Procurement Data System*, Report 10-08 (February 26, 2010).
- *Office of Business Operations Contracting Personnel Qualifications and Warrant Authority*, Report 9-14 (July 6, 2009).

SUCCESS STORY: Handmade Cannoli are Golden

Golden Cannoli Shells Company, Inc.,
Chelsea, Massachusetts

In 1970, after working at various bakeries in Boston's North End, cousins Francesco Bono and Angelo Bresciani secured a storefront and started their first bakery. Success followed for the Argentine immigrants, and soon they were able to open a second bakery. Instead of paying a vendor, the pair decided to start making their own cannoli shells and fillings. That's how the *2014 Massachusetts Small Business of the Year*, Golden Cannoli, Inc. came to be.

Golden Cannoli has received national recognition for their handmade cannoli and fillings. The company's second generation owners, **Valerie Bono, Maria Malloy, Eric Bresciani**, and **Edwin Bresciani** received an SBA Express Loan which was used for equipment upgrades, and they secured an SBA 504 loan to buy a 30,000 square-foot manufacturing facility. Maria joined SBA's Emerging Leaders Initiative/e200 program in Boston to develop a growth plan for the business. Each owner now works with a SCORE counselor to develop strategies to manage and restructure the business to run at maximum productivity.

With continued growth and development – 38 percent in 2013 – Golden Cannoli increased its staff from 12 in 2012 to 41 full time employees. The increase in sales is the result of staff training and new product development.

Golden Cannoli also gives back to the community. The company makes regular contributions to local schools, hospitals, and charitable organizations.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

As required by OMB Circular A-136, Section II.5.7, the following summarizes SBA's Financial Statement Audit and Management Assurances:

Summary of Financial Statement Audit

Audit Opinion	Unmodified					
Restatement	No					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements.					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0

Conformance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. System Requirements	No lack of substantial compliance noted	No lack of substantial compliance noted
2. Accounting Standards	No lack of substantial compliance noted	No lack of substantial compliance noted
3. USSGL at Transaction Level	No lack of substantial compliance noted	No lack of substantial compliance noted

IMPROPER PAYMENTS

As required by the Improper Payment Information Act of 2002 (IPIA), its amendments, and OMB Circular No. A-123, Appendix C, *Management's Responsibility for Internal Control: Requirements for Effective Estimation and Remediation of Improper Payments*, the SBA reviews programs identified as susceptible to improper payments.

Improper payment reviews are a multi-layered process that starts with a risk assessment. If an assessment indicates a program is susceptible to improper payments, then testing is performed using a statistically valid sampling technique. Based upon the testing results, a corrective action plan is determined for the types of errors uncovered. If a significant amount of recoverable dollars is found, the SBA considers the appropriateness of performing a recapture audit.

The Disaster Relief Appropriations Act, 2013 provided funding for disaster relief in response to Hurricane Sandy to certain agencies including the SBA. Agencies were required to ensure the funds were used for their intended purpose. The Act deemed all Hurricane Sandy funds as susceptible to significant improper payments and regardless of risk assessment results, mandated that agencies report an improper payment estimate for the funds.

The SBA reviewed five programs and activities for improper payments – three major credit programs as mandated by OMB, disbursements for goods and services, and Hurricane Sandy Disaster Relief (HSDR) funds. The three major credit programs are:

- 7(a) business loan program that includes guaranty purchases and guaranty approvals;
- 504 certified development company loan guaranty approvals; and
- Disaster direct loan disbursements.

A fourth major credit program, the Small Business Investment Company (SBIC) program, retains approval from OMB for relief from reporting due to the low occurrence of improper payments determined by several years' review and low probability for improper payments.

Disbursements for goods and services were identified as risk susceptible in FY 2011 and have been subject to improper payment review since FY 2012. In mid FY 2013, the SBA received HSDR funds for the Disaster Direct loan and grant programs. An assessment of the grant funds did not find the relevant grant programs to be risk susceptible; however, the SBA conducted an improper payment review and is reporting the results to comply with the Disaster Relief Appropriations Act, 2013.

The next sections discuss SBA efforts and results related to improper payment assessments and reviews.

Risk Assessments

OMB Circular No. A-123, Appendix C requires risk assessments at least once every three years for programs not deemed risk susceptible or if a program was subjected to a significant change in legislation or funding level. The SBA conducted 14 risk assessments for the FY 2014 review: 11 upon the expiration of the three-year assessment period and 3 to comply with the Improper Payment Elimination and Recovery Improvement Act of 2012 which requires the assessment of payments to employees. The risk assessments did not identify any additional programs as susceptible to improper payments.

Statistical Sampling and Corrective Actions

To provide more clarity for the reader, this section is organized by the five programs subjected to review for improper payments and provides statistical sampling information coupled with corrective actions.

7(a) Loan Guaranty Purchases

Statistical Sampling

Using Probability Proportional to Size (PPS) sampling with replacement, the 7(a) purchase sample cases were chosen from all purchases approved during the 12 month period ending March 31, 2014. The purchase population was divided into four strata based on the following factors: which of three servicing offices processed the purchase and if the loan was considered an early default, regardless of servicing office. Using the PPS approach, the SBA determined the appropriate total sample size to be 236 loans from the population. The sample included aggregate purchase outlays of $109,883,193 and an absolute value of improper payments of $804,586 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the 7(a) guaranty purchase population is 1.33 percent.

The 7(a) loan guaranty purchase reviews were conducted to examine if the lender complied materially with the 7(a) loan program origination requirements including statutory provisions, SBA regulations, any agreement the lender executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 7(a) loan program. The reviews were to determine if the lender (1) originated, serviced, and liquidated the loan in a prudent and commercially reasonable manner; (2) misrepresented or failed to disclose a material fact to the SBA; and/or (3) put SBA's financial interest at risk.

Corrective Action

The root cause for all 7(a) loan guaranty purchase improper payments were administrative and documentation errors. Improper payments generally arose when the purchase processor failed to identify material lender deficiencies in the handling of an SBA guarantied loan. The primary reasons for 7(a) purchase errors in FY 2014 included:

- ineligible loan structures;
- misapplication of liquidation proceeds;
- incorrect payment of interest to lender due to interest calculation using an incorrect rate; and
- reimbursement of lender expenses that were not fully justified.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 7(a) loan guaranty purchase centers. Specific corrective actions are determined based upon the primary reason for the error with the purpose of both remedying the error and ensuring the error does not occur in the future. Plans for improvement include:

- external training for lenders to avoid ineligible loan structures;
- internal training for purchase processors to detect ineligible loan structures, select the proper interest rate, and identify appropriate lender expenses; and
- recovery of lender expenses that were not fully justified.

Corrective actions are tracked at the loan level through a centralized database. The quality control specialist in each loan center monitors errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met.

7(a) Loan Guaranty Approvals

Statistical Sampling

Using PPS sampling with replacement, the 7(a) approval sample cases were chosen from all loan guaranties approved during the 12 month period ending March 31, 2014. The loan guaranties were approved through SBA's loan processing centers, consisting of the Standard 7(a) Loan Guaranty Processing Center with dual locations in Sacramento, California and Hazard, Kentucky; and the Sacramento Loan Processing Center, which handles PLP and SBAExpress loan approvals. The approval population was divided into two strata based on whether the loan was SBAExpress or not. The SBA determined the appropriate total sample size to be 123 loans from the population. The sample included net guarantied approvals of $124,826,715 and improper payments of $6,582,040 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate was calculated as 5.15 percent.

The 7(a) loan guaranty approval reviews were conducted to examine if the lender complied materially with the 7(a) loan program origination requirements including statutory provisions, SBA regulations, any agreement the lender executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 7(a) loan program. The reviews were to determine if the lender (1) originated the loan in a prudent and commercially reasonable manner; (2) misrepresented or failed to disclose a material fact to the SBA; and/or (3) put SBA's financial interest at risk.

Corrective Action

In FY 2014, the most prevalent root cause for 7(a) loan approval improper payments stemmed from administrative or process errors made by the participating lender at origination. Improper payments generally arose when the participating lender failed to comply with loan program requirements. The primary reasons for 7(a) approval errors in FY 2014 included:

- ineligible loan structures;
- lack of repayment ability; and
- improper determination of eligibility by lenders or SBA loan officers.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 7(a) loan guaranty approval centers. Specific corrective actions are determined based upon the primary reason for the error with the purpose of both remedying the error and ensuring the error does not occur in the future. Plans for improvement include:

- external training for lenders to avoid ineligible loan structures, ensure proper use of loan proceeds, and accurately determine loan eligibility;
- internal training for loan approvers to determine eligibility of loan and loan structures within SBA guidelines; and
- internal training for loan approvers to calculate a borrower's repayment ability.

Corrective actions are tracked at the loan level through a centralized database. The Quality Control Specialist for 7(a) loan guaranty approvals monitors errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met.

504 CDC Loan Guaranty Approvals

Statistical Sampling

Using PPS sampling with replacement, the 504 CDC loan approval sample cases were chosen from all loan guaranties approved during the 12-month period ending March 31, 2014. The loan guaranties were approved at SBA's Sacramento Loan Processing Center and closed at various SBA district offices, with servicing subsequently handled by the Fresno, California Commercial Loan Servicing Center and the Little Rock, Arkansas Commercial Loan Servicing Center. The approval population was not stratified. The SBA determined the appropriate total sample size to be 183 loans from the population. The sample included net approval outlays of $249,600,000 and improper payments of $2,298,052 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate was calculated as 1.09 percent.

The 504 CDC loan approval reviews were conducted to examine if the lender complied materially with the program's origination requirements including statutory provisions, SBA regulations, any agreement the CDC executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 504 CDC loan program. The reviews were to determine if the CDC (1) originated the loan in a prudent and commercially reasonable manner; (2) misrepresented or failed to disclose a material fact to the SBA; and/or (3) put SBA's financial interest at risk.

Corrective Action

In FY 2014, the most prevalent root cause for 504 approval improper payments stemmed from administrative or process errors made by the participating lender at origination. Improper payments generally arose when the participating lender failed to comply with loan program requirement. The primary reasons for 504 approval errors in FY 2014 included:

- ineligible loan structures; and
- lack of repayment ability.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 504 loan approval center. Specific corrective actions are determined based upon the primary reason for the error with the purpose of both remedying the error and ensuring the error does not occur in the future. Plans for improvement include:

- external training for lenders to avoid ineligible loan structures, ensure proper use of loan proceeds, and accurately determine loan eligibility;
- internal training for loan approvers to calculate a borrower's repayment ability; and
- enhanced internal quality control reviews to test 504 pre-closing servicing actions.

Corrective actions are tracked at the loan level through a centralized database. The quality control specialist for 504 loan guaranty approvals monitors errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met.

Disaster Direct Loan Program

Statistical Sampling

The Office of Disaster Assistance performs a Quality Assurance Review (QAR) of the approved loan portfolio annually. A part of the QAR is to identify any deficiency that would result in an improper payment. The statistical software and methods used follow widely accepted practices. The review population consisted of disaster loan disbursements, including HSDR funds, made during the 12-month period ending June 30, 2014 with total disbursements of $585,610,353. A sample of 500 payments was selected for which testing yielded a weighted estimated improper payment rate of 12 percent. Based on the sample results, the estimated amount of improper payments was $70,160,890. This represents a substantial reduction in the improper payment rate and dollars over the last fiscal year from 18.4 percent and $121 million.

The scope of ODA's review covers three primary compliance areas: (1) basic eligibility; (2) adherence to relevant laws, rules, regulations, and standard operating procedures; and (3) credit worthiness.

Corrective Action

In FY 2014, the most prevalent root cause for Disaster Direct Loan program improper payments stemmed from administrative and documentation errors. The loan processing and disbursement staff did not consistently follow the guidance provided in the SOP and policy memos. Specifically, errors arose when:

- case managers and attorneys did not confirm insurance coverage was for the proper dates and type of coverage;
- disbursements were made to parties that were ineligible for disaster loan assistance; and
- loan disbursements duplicated borrowers' insurance proceeds or similar recovery.

As a result, ODA plans the following corrective actions:

- intense training for the disbursement staff (case managers and attorneys) at the Processing and Disbursement Center in Fort Worth, Texas on what is deemed acceptable documentation for the various types of insurance coverage;
- implement a second independent review to verify that the proper insurance coverage is in effect for loans over a specified amount; and
- in March 2014 a change was made to the Disaster Credit Management System to assist in preventing a disbursement on loans where the existing checklists illustrate an expired insurance policy.

ODA disputes that the stated improper payment rate truly reflects the potential that disaster loans are disbursed to disaster victims that are not eligible under the Disaster loan program. The improper payments consisted of 79 disbursements out of the 500 disbursements reviewed. Of the 79 considered to be improper payments, 61 were for "paperwork" issues. An example of a disbursement considered "improper" due to a paperwork issue would be when the loan lacks documentation of a current insurance policy in place at the time of disbursement. The paperwork issues did not result in a disaster loan borrower receiving any loan funds that they were not eligible to receive or have any impact on SBA's ability to collect on the disaster loans. The remaining 18 improper payments represent loan disbursements for loans that were ineligible for disaster loan assistance or overpayments resulting from a duplication of borrowers' insurance proceeds.

Disbursements for Goods and Services

Statistical Sampling

Disbursements for goods and services samples were chosen using PPS with replacement methodology from payments completed during the 12 months ending March 31, 2014. The total number of disbursements was 3,470, and the total dollar amount was $92,576,166. The SBA determined the appropriate sample size to be 248 invoices having total outlays of $48,196,963. Based upon the sample results, the estimated FY 2014 disbursements for goods and services improper payment rate was 8.46 percent for an estimated total of $7,832,981. SBA corrective actions yielded improvement from last year's estimated improper payments for disbursements for good and services with the rate being reduced by more than 3 percent from 11.6 percent and the dollars cut nearly in half from $14.1 million last year.

The scope of the review covered three areas: invoice accuracy, compliance with contract terms, and accuracy of invoice processing.

Corrective Action

In FY 2014, the root cause of the improper payments was administrative and documentation errors. All payments corresponded to valid goods and services received. While reductions to improper payments were achieved, errors identified in previous improper payment reviews remain. The types of errors included:

- inadequate comparison of the invoice to the contract to verify period of performance, terms, or labor rates and categories to ensure they agree; and
- payment accuracy issues where the financial system was not updated at the time of payment with current vendor payment information from the System for Award Management (SAM).

To prevent the administrative and documentation errors noted in the improper payment review, the SBA has completed or will complete the following corrective actions:

- provided training in Spring 2014;
- conduct refresher training in FY 2015; and
- develop the interface between the financial system and SAM during the 2015 fiscal year; continue manual procedures until the interface between the financial system and SAM is developed.

Hurricane Sandy Disaster Relief Grants

Statistical Sampling

Hurricane Sandy Disaster Relief grants samples were chosen using PPS with replacement methodology for disbursements completed during the 12 months ending March 31, 2014. The grant population consisted of 42 disbursements for the total dollar amount of $5,478,126.76. The SBA determined the appropriate sample size to be 19 invoices with total outlays of $5,034,016. Based upon the sample results, the estimated FY 2014 improper payment rate was 3 percent for a total of $165,642.

Corrective Action

The root cause of improper payments in the HSDR grants improper payment review was an administrative and documentation error related to one grant. The review revealed no apparent overpayments or opportunities for recapture. As this is a new grant program, the estimated 3 percent is the base year error rate. The error was:

- a payment accuracy issue where the vendor payment information used in the Health and Human Services (HHS) Payment Management System did not correspond to the current vendor payment information in the System for Award Management.

In the particular case, the vendor had established accounts for each of its federal grants to ensure that federal funds were not comingled with other funds. While the vendor had properly registered the account with the HHS Payment Management System, it had not updated SAM to include the account specific to the SBA grant. Upon SBA's request, the vendor added the account to SAM. To prevent payment accuracy concerns in the future, the SBA has completed or will complete the following corrective actions.

- Enhance the SBA application and notice of award instructions to include special emphasis on issues identified during the FY 2014 review. Grantees are provided with instructions to ensure that payment accounts are properly registered both in SAM and the HHS Payment Management System. Grantees are now required to provide evidence that the account registered in HHS matches the account that is registered in SAM.
- Prior to issuing awards, SAM is verified by SBA staff to ensure that the correct account associated with the grant is registered in HHS; and
- Prior to disbursement, SBA staff verify the SAM accounts and HHS accounts for those grants that are paid using the HHS Payment Management System.

Improper Payment Reporting

The following sections and tables present a summary of SBA's Improper Payment review results and outlook, and a matrix of the reasons for improper payments.

Recapture of Improper Payments

The SBA does not currently conduct recapture audits, therefore tables 2 through 5 defined by OMB Circular No. A-136 are not included in this report. Agency efforts to recapture improper payments are discussed by program.

7(a) loan guaranty purchase improper payment reviews, Quality Control Reviews and OMB Circular A-123 Appendix A reviews have indicated that payment recapture audits would be cost effective. The SBA has developed a robust Quality Control Review process and will be expanding the scope of the reviews to include payment recapture audits in FY 2015. This process requires additional human resources, a review process specific to identifying overpayments, and may require coordination of sampling techniques with a statistician. The SBA's quality control staff in the Office of Capital Access already conducts continuous Quality Control Reviews to assess the quality of the loans and loan documentation and to identify potential improper payments. Overpayments identified through both the continuous review processes and annual improper payment reviews are recovered from the lender as appropriate. The recovery determination is made on a case-by-case basis, which varies substantially depending on the circumstances of the loan approval, servicing, purchase and/or liquidation processes. The SBA will use this robust process for purposes of the recapture audit process and reporting.

7(a) loan guaranty approval and 504 CDC loan approval are not subject to payment recapture audits as no payment is made at the time of approval; payment is made only if the lender requests that the SBA honor its

MATRIX OF IMPROPER PAYMENT CATEGORIES BY PROGRAM ($ IN MILLIONS)													
Reason for Improper Payment		**7(a) Guaranty Purchases**		**7(a) Guaranty Approvals**		**504 CDC Guaranty Approvals**		**Disaster Direct Loan Disbursements**		**Disbursements for Good and Services**		**Hurricane Sandy Disaster Relief Grants**	
		Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment
Program Design or Structural Issue													
Inability to Authenticate Eligibility		3.51						6.73					
Failure to Verify:	Death Data												
	Financial Data			107.67		24.98							
	Excluded Party Data												
	Prisoner Data												
	Other Eligibility Data[1]							1.25					
Administrative/Process Error Made by:	Federal Agency	2.68	1.67	107.67				0.30		4.35	0.30	0.17	
	State or Local Agency												
				389.67		24.98							
Medical Necessity													
Insufficient Documentation to Determine		3.59								3.18			
Other Reason[2]								61.88					
Total Estimated Improper Payments		**9.78**	**1.67**	**605.01**	**0.00**	**49.96**	**0.00**	**70.16**	**0.00**	**7.53**	**0.30**	**0.17**	**0.00**

1. Duplicated disaster recovery benefits not properly deducted from eligible disaster loss.
2. This category consists of lack of documents to support ODA's policies concerning: a) insurance - $46,765,253, b) contractors' compliance - $3,967,663, c) building permits - $2,476,800, d) titling/mortgage issues - $2,289,036, e) disbursement - $3,585,097, and f) miscellaneous - $2,799,580.

guaranty. Improper payments identified through both the annual improper payment and continuous Quality Control reviews are recovered from the lender through the cancellation of the SBA guaranty, reduction in loan guaranty percentage, or loan modification, as appropriate. This determination is made on a case-by-case basis, which varies substantially depending on the circumstances of the loan approval and lender authority.

Disaster direct loans recapture audits would not be cost effective. The Office of Disaster Assistance made this de-

IMPROPER PAYMENT REDUCTION OUTLOOK ($ IN MILLIONS)																	
Program	**FY 2013**			**FY 2014**					**FY 2015**			**FY 2016**			**FY 2017**		
	Outlays[1] $	**IP %**	**IP $**	**Outlays[1] $**	**IP %**	**IP $**	**Over-paid $**	**Under-paid $**	**Outlays[1] $ Est.**	**IP %**	**IP $**	**$ Est.**	**IP %**	**IP $**	**Outlays[1] $ Est.**	**IP %**	**IP $**
7(a) Guaranty Purchases[1]	1,211.4	1.15	13.9	858.6	1.33	11.4	9.7	1.7	1,000.0	1.4	14.0	1,100.0	1.3	14.3	1,000.0	1.4	14.0
7(a) Guaranty Approvals[1,2]	10,994.5	4.6	510.9	11,741.1	5.15	605.0	605.0	0.0	12,000.0	4.9	588.0	12,500.0	5.0	625.0	13,000.0	4.9	637.0
504 CDC Guaranty Approvals	6,386.9	0.54	34.4	4,571.5	1.09	49.9	49.9	0.0	5,200.0	1.2	62.4	5,700.0	1.1	62.7	6,000.0	1.1	66.0
Disaster Loan Disbursements[1]	659.0	18.4	121.1	585.6	12.0	70.2	70.2	0.0	800.0	9.9	79.2	800.0	9.5	76.0	800.0	9.3	74.4
Disbursements for Goods and Services	121.4	11.6	14.1	92.6	8.46	7.8	7.5	0.3	115.0	8.0	9.2	115.0	7.5	8.6	115.0	7.0	8.1
Hurricane Sandy Disaster Relief Grants	N/A	N/A	N/A	5.5	3.0	0.17	0.17	0.0	7.9	2.5	0.18	5.6	2.0	0.11	0.0	N/A	N/A

1. Outlays in this report represent the base amount of the program activity related to SBA improper payments; and this amount will differ from the amount reported as outlays in SBA's President's Budget submissions because they include reestimates of subsidy cost, reimbursements to SBA administrative funds and other costs. Outlays for 7(a) Guaranty Purchases are the amount of disbursements for the purchase of defaulted guarantied loans. Outlays for 7(a) Guaranty Approvals are the amount of new guaranty approvals by banks and other SBA lending partners. Outlays for 504 CDC Loans Guarantied are approvals irrespective of disbursement, net of approval increases, decreases, reinstatements and cancellations for the current year. Outlay figures for Disaster are loan disbursements on current year approvals.
2. For 7(a) Guaranty Approvals, amounts reported are based on the guarantied amount only.

termination after completing the 2014 Improper Payment audit. The audit was completed by the Quality Assurance Review team located in the Processing and Disbursement Center under the supervision of the Director of Program Policy and Evaluation in Washington, DC. The team reviewed 500 disbursements of which 79 disbursements in 73 loan files were identified as improper payments. The dollar value of the 79 disbursements was $9,976,850. Pertaining to recovery of the 79 improper payments:

- 61 of the disbursements, totaling $8,842,200 were for paperwork issues and not subject to recovery;
- 5 of the disbursements, totaling $894,969 were determined as not subject to recovery due to information received or analysis completed after the initial approval; and
- of the remaining erroneous 13 payments totaling $239,681, only $14,955 are likely to be identified for recovery.

The amount subject to recovery is 0.014 percent of the sample. Therefore, the estimated total amount of disaster loan funds subject to recovery for the entire population was $81,986. The improper payment audit was completed using 4,400 hours of staff time and cost approximately $185,850. Based on the cost to audit versus the estimated dollars of recovery, it is clear that further expenditures for a separate recovery audit is not cost effective.

Disbursements for goods and services recapture audits would not be cost effective. The improper payment testing required 479 labor hours at a cost of $30,500. Payments identified during the improper payment review as eligible for recapture totaled $26,482; thus the cost of the review exceeds the return.

Hurricane Sandy Disaster Relief grants would not benefit from a recapture audit. As noted previously, the improper payment review did not reveal any apparent overpayments, so no opportunities for recapture were uncovered.

Overpayments Recaptured Outside of Payment Recapture Audits for SBA credit programs are applicable only to 7(a) Loan Guaranty Purchases as payments made within this program area are recoverable from lenders as appropriate. The amount identified for recapture during the 7(a) Loan Guaranty Purchase improper payment review in FY 2013 was $401,972, which was later reduced as two previously reported improper payments, totaling $166,969 were determined to be proper. The amount identified for recapture during the 7(a) Loan Guaranty Purchase improper payment review in FY 2014 was $804,585, of which, $524,029 has since been recovered. Cash disbursements related to goods and services made for an inaccurate amount or not according to contract terms total $26,482 of which $25,608 has been recaptured.

OVERPAYMENTS RECAPTURED OUTSIDE OF PAYMENT RECAPTURE AUDITS ($ IN THOUSANDS)

Source of Recovery	Amount Identified FY 2014	Amount Recovered FY 2014	Amount Identified FY 2013	Amount Recovered FY 2013	Cumulative Amount Identified	Cumulative Amount Recovered
7(a) Loan Guaranty Purchase IP Review[1]	805.0	524.0	235.0	195.8	7,718.0	1,482.6
Contract IP Review	26.5	25.6	1.9	0.0	62.7	57.8

1 Amount Identified for FY 2012 has been reduced by $167.0. Subsequent to FY 2012 reporting, the payment was determined to be proper.

Accountability

The focus of SBA's Strategic Goal 3 is to build an SBA that meets the needs of today's and tomorrow's small businesses. Strategic Objective 3.1 is designed to strengthen SBA's core programs and operations to ensure that they are high performing, effective, and relevant to the needs of the small business community. SBA's strategic goals are included in annual performance plans for all of its programs as business objectives, which are included in employee performance plans. SBA management monitors accomplishments of these business objectives and takes action when progress toward goal achievement is not on target. Executive and management bonuses are based on the accomplishment of business objectives included in employee annual performance plans. This management process helps assure accountability for improper payment reduction.

Information Systems and Other Infrastructure

7(a) loan guaranty purchases are supported by the Guaranty Purchase Tracking System. It is continually updated to enhance the overall integrity of the purchase process.

7(a) loan guaranty approvals and 504 CDC loan guaranty approvals are supported by E-Tran, SBA's electronic loan processing/servicing system. Both the SBA and delegated lenders process applications through the system and lenders may also handle unilateral servicing actions electronically. The system provides increased efficiency and decreased costs in the loan guaranty origination and servicing processes.

Disaster direct loan program has the information systems and other infrastructure it needs to reduce improper payments to targeted levels. For example, the Office Disaster Assistance has an integrated, electronic loan processing system, the Disaster Credit Management System (DCMS), to streamline, enhance and improve the loan-making process. This system supports workflow management, electronic file management and document generation functions. Many of the business rules governing DCMS have been designed to improve the quality assurance process. In fact, the ODA Quality Assurance Team works continually with the DCMS development team to improve the quality assurance process with a goal to minimize future improper payments as much as possible.

Disbursements for goods and services are handled by the Oracle Federal Financial System. PRISM, a contract management system, is used to process SBA's acquisitions. The SBA Acquisition and Accounts Payable teams continue work to improve interfaces between PRISM, the financial system and external databases, such as SAM, to streamline the acquisition process from start to finish.

Hurricane Sandy Disaster Relief grants are supported by the Oracle Federal Financial System, the PRISM Contract Management System, and the Health and Human Services Payment Management System. These systems provide the adequate infrastructure to track grant obligations and payments. SBA continues to look at ways to streamline the grants process through the integration of PRISM and Oracle.

Statutory or Regulatory Barriers

The SBA does not have any statutory or regulatory barriers limiting improvement to its performance on the improper payments initiative.

Reduction of Improper Payments with the Do Not Pay Initiative

The SBA has implemented the Do Not Pay (DNP) Initiative and subjects its disbursements to comparison against the Death Master File (DMF) and SAM, which includes the Excluded Parties List System. The comparison between SBA and DNP data is completed on a monthly basis, using disbursement data two months in arrears. SBA staff manually review and adjudicate the findings of the data matches, with the majority of matches received from DNP being false-positives. Since implementing DNP, SBA's adjudication process has identified less than 10 actual matches against the DMF with one determined to be improper. The FY 2014 DNP process examined SBA disbursements between August 2013 and July 2014. Using the DNP database has not impacted improper payments as evidenced in the table below.

DO NOT PAY STATISTICS

	# of payments reviewed for improper payments	$ of payments reviewed for improper payments	# of payments stopped	$ of payments stopped	# of improper payments reviewed and not stopped	$ of improper payments reviewed and not stopped
Reviews with the DMF only	220,125	$1,030,523,896	0	$0	1	$674
Reviews with SAM / EPLS	220,125	$1,030,523,896	0	$0	0	$0

FREEZE THE FOOTPRINT REPORT

Section 3 of the Office of Management and Budget Memorandum (OMB) M-1212, Promoting Efficient Spending to Support Agency Operations, directs that all Chief Financial Officers (CFO) Act Executive Branch departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to the FY 2012 baseline. This is the "Freeze the Footprint" policy.

On an annual basis, an agency shall not increase the size of its domestic real estate inventory, measured in square footage, for space predominately used for offices and warehouses. Progress in meeting the "Freeze the Footprint" policy is based on an annual evaluation of an agency's total office and warehouse square

Following is the SBA annual report:

FREEZE THE FOOTPRINT BASELINE COMPARISON

Unit	FY 2012 Baseline	FY 2013 Actuals	Change (FY 2012 – FY 2013)
Square Footage (SF in Millions)	1.375	1.352	0.023

Reporting of O&M Costs – Owned and Direct Lease Buildings

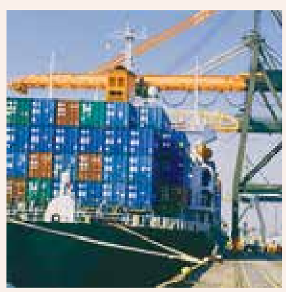
The SBA only occupies buildings that are leased by GSA and subject to Occupancy Agreements between GSA and SBA which are explicitly excluded from reporting in the Circular.

The SBA is updating its facilities Standard Operating Procedure to reflect new space standards which are being established for all offices across the Agency. In addition, during FY 2015 the SBA plans to conduct a usage study of a sample of the Agency's leased space that will inform the new space standards. The Facility Management Team members and space management specialists will be directed to closely apply these standards to new projects. In the future, deviation from the standard may only be approved by the Chief Operating Officer or a designated alternate. Currently, the SBA is also reviewing every Occupancy Agreement up for renewal to identify any unneeded space. Moreover, when available and appropriate, the SBA makes every attempt to consolidate and/or co-locate offices and functions and to co-locate with other agencies. These efforts have been successful to date and the Agency has eliminated approximately 63,000 square feet of real estate since FY 2012.

DID YOU KNOW?

The SBA awarded **$8 million** in State Trade and Export Promotion (STEP) cooperative agreements in the third round of STEP assistance. This round is expected to increase the number of small business exporters and grow the volume of U.S. exports by an estimated $120 million.

Appendices



SUCCESS STORY: Loyal Customers Provide Business Base

Tammy's Tack & Western Wear,
Fort Pierre, South Dakota

Tammy Jean Tolton grew up on a farm on the Cheyenne River Sioux Reservation. After two of their children were diagnosed with autism, Tammy and her husband were faced with overwhelming financial and medical challenges. They moved to Ft. Pierre where Tammy began to help a friend in her western store. She loved helping customers with their unique requests and doing all she could to ensure that the store provided the best service possible.

When a business deal to buy the store fell apart, Tammy was faced with wondering what to do next. Her loyal customers gave her the solution: start her own store and they would follow. Tammy wondered how she could do this with minimum inventory, maximum customer support, and limited funding. That is what brought her to an SBA Small Business Development Center.

Tammy had already set so many things in motion, her dream became a reality. Inventory was ordered based on loyal vendor relationships who took the orders on trust. Rent space was secured, and the landlord began renovating based on his respect for Tammy and her reputation in the community.

A Cheyenne River Sioux Tribe Community Development Financial Institution (CDFI) and a Crow Creek CDFI were available for funding. As Tammy was a tribal member of the Eagle Butte Community, she was also eligible for that funding. Tammy spent weeks meeting with loan officers, taking required prequalifying courses, and developing a business plan with the Small Business Development Center. On opening day she finished stocking shelves and arranging product, and at 9:00 a.m. the doors opened. "I have a stellar business plan and Tammy's Tack & Western Wear LLC could not have done this alone," she said.

APPENDIX 1 - CONTACT SBA: USEFUL SITES AND NUMBERS

The SBA home page is **www.sba.gov**. Information on SBA programs may be accessed from this site. Several of the more frequently visited sites are listed here:

SBA INFORMATION	
About SBA	www.sba.gov/about-sba
SBA Performance, Budget and Planning	www.sba.gov/performance
SBA Strategic Plan	www.sba.gov/AgencyStrategicPlan
Business USA	http://business.usa.gov/

STARTING AND MANAGING A BUSINESS	
What is a Small Business?	www.sba.gov/content/am-i-small-business-concern
Thinking about starting a business?	http://www.sba.gov/thinking-about-starting/
Resources	
Local Assistance	www.sba.gov/local-assistance
Lender Resources	www.sba.gov/lender_resources
Financing Growth	www.sba.gov/content/financing-growth
Explore Exporting	www.sba.gov/exporting
Health Care	www.sba.gov/healthcare

LOANS, GRANTS and FUNDING	
Small Business Loans	www.sba.gov/financialassistance
Surety Bonds	www.sba.gov/content/surety-bonds-explained
Tax Exempt Bonds	www.sba.gov/content/tax-exempt-bonds
Venture Capital	www.sba.gov/content/venture-capital#
Grants	www.sba.gov/content/facts-about-government-grants

CONTRACTING	
Government Contracting	www.sba.gov/contracting
Contracting Opportunities	www.sba.gov/contracting-opportunities
Register as a Contractor	www.sam.gov
Size Standards	www.sba.gov/size

ADVISING, MENTORING, and TRAINING	
SBA Learning Center	www.sba.gov/training
Small Business Development Centers	www.sba.gov/sbdc
Women's Business Centers	www.sba.gov/content/womens-business-centers
SCORE Business Mentors	www.sba.gov/score
Veterans Outreach	www.sba.gov/content/veterans-business-outreach-centers

DISASTER ASSISTANCE	
Disaster Assistance	www.sba.gov/disaster
Disaster Area Office Locations	www.sba.gov/about-offices-list/4
Response Office Locations for a Declared Disaster	Go to www.sba.gov/content/current-disaster-declarations and then select the disaster/affected area in question
FEMA Information	www.fema.gov

ADDITIONAL RESOURCES	
Office of Advocacy	www.sba.gov/advocacy
Office of the National Ombudsman	www.sba.gov/ombudsman
Office of the Inspector General	www.sba.gov/oig

Facebook: www.facebook.com/sbagov
Twitter: www.twitter.com/sbagov
YouTube: www.youtube.com/sba

SBA National Answer Desk (Toll Free) (800) 827-5722
Disaster Customer Service Center (Toll Free) (800) 659–2955

DID YOU KNOW

BusinessUSA was one of six winners of the *2014 Igniting Innovation Award*, which recognizes government and industry individuals and teams who bring innovative thinking to IT products, services, systems, and solutions that benefit the federal government and citizens.

APPENDIX 2 - GLOSSARY

(Available at: www.sba.gov/performance, FY 2014 Agency Financial Report)

504 — **504 Certified Development Loan Program.**
Provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings, and long-life capital equipment.

7(a) — **7(a) Loan Guaranty Program.**
SBA's primary loan program, provides general loan financing for a wide variety of purposes.

8(a) — **8(a) Business Development Program.**
Assists firms owned and controlled by socially and economically disadvantaged individuals to enter and succeed in the economic mainstream.

7(m) — **7(m) Microloan Program.**
Provides small, short-term loans to small business concerns and certain types of non-profit child-care centers.

A-123 — **Designation for OMB Circular on Internal Control Systems.**
It prescribes policies and procedures to be followed by executive departments and agencies in establishing, maintaining, evaluating, improving, and reporting on internal controls in their program and administrative activities.

AARP — **Association for the Advancement of Retired Persons.**

AFR — **Agency Financial Report. One of the annual PAR reports.**

APR — **Annual Performance Report.**
Required by the Government Performance and Results Act, it presents a federal agency's progress in achieving the goals in its strategic plan and performance budget.

BATF — **Business Assistance Trust Fund.**
A trust fund in the U.S. Treasury maintained to receive and account for donations made by private entities for activities to assist small business.

BD — **Business Development.**
The Office of Business Development uses SBA's statutory authority to provide business development and federal contract support to small disadvantaged firms.

BLIF — **Business Loan and Investment Fund.**
Fund operated by the U.S. Department of the Treasury to maintain the accounting records of loans approved prior to 1992.

CAPLine — Part of the SBA 7(a) loan program which helps small businesses meet their short-term and cyclical working capital needs.

CBJ — **Congressional Budget Justification.**
A federal agency's annual budget request to Congress.

CDC — **Certified Development Company.**
Refers to the Section 504 Certified Development Company debenture program.

CFO — **Chief Financial Officer.**
The CFO is responsible for the financial leadership of the Agency, including responsibility for all Agency disbursements, management, and coordination of Agency planning, budgeting, analysis, and accountability processes.

CIO — **Chief Information Officer.**
The CIO is responsible for the management of information technology for the Agency, including the design, implementation, and continuing successful operation(s) of information programs and initiatives.

COBOL — **Common Business-Oriented Language.**
A computer programming language designed for business applications.

COTS — **Commercial Off-The-Shelf.** Software or hardware products that are ready-made and available for sale to the public.

CSAM — **Cyber Security Assessment and Management.**

DCIA — **Debt Collection Improvement Act.**

DCMS — **Disaster Credit Management System.** The electronic system used to process loan applications for all new disaster declarations.

DLF — **Disaster Loan Fund.** Assists eligible small businesses impacted by disasters.

ELA — **Electronic Loan Application.**

FCRA — **Federal Credit Reform Act.** A law enacted to provide a more realistic picture of the cost of U.S. government direct loans and loan guaranties.

FECA — **Federal Employees' Compensation Act.** Provides compensation benefits to federal civilian employees and to their surviving dependents for work-related injuries or illnesses.

FERS — **Federal Employees Retirement System.** A three-tiered retirement plan for federal employees hired after 1984, composed of Social Security benefits, a basic benefit plan, and contributions to a TSP.

FFMIA — **Federal Financial Management Improvement Act.** A law that requires each agency to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the USSGL.

FICA — **Federal Insurance Contributions Act.** A law requiring a deduction from paychecks and income that goes toward the Social Security program and Medicare.

FISMA — **Federal Information Security Management Act.** A law that defines a comprehensive framework to protect government information, operations, and assets against natural or man-made threats.

FMFIA — **Federal Managers Financial Integrity Act.** A law that primarily requires ongoing evaluations and reports on the adequacy of the internal accounting and administrative control systems of executive agencies. It also requires evaluations and reports on the conformance of financial management systems.

FTA — The SBA Fiscal Transfer Agent is the agent tasked with the responsibility to administer each SBA Pool or Individual Certificate. It is to maintain a registry of Registered Holders and other information as the SBA requires.

FTE — **Full Time Equivalent.** Indicates the workload of an employed person; an FTE of 1.0 means that the person is equivalent to a full-time worker, while an FTE of 0.5 signals that the worker is only half-time.

FY — **Fiscal Year.** The federal government fiscal year begins October 1 and ends the following September 30.

GAO — **U.S. Government Accountability Office.** The audit, evaluation, and investigative arm of Congress.

GC/BD — **Office of Government Contracting and Business Development.** Works to create an environment for maximum participation by small, disadvantaged, and women-owned business in federal government contract awards and large prime subcontract awards.

GSA — **General Services Administration.** A federal agency of the Executive Branch whose mission is to deliver the best value in real estate, acquisition, and technology services to government and the American people.

HUBZone — **Historically Underutilized Business Zone.**
SBA program that encourages economic development by the establishment of federal contract award preferences for small businesses located in historically underutilized business zones.

IIP — **Incremental Improvement Project.**
Information technology projects intended to upgrade existing financial software and application modules in SBA's Loan Accounting System.

IPIA — **Improper Payment Information Act.**
A federal law enacted in 2002 to identify and reduce erroneous payments in the government's programs and activities.

IT — **Information Technology.**
Refers to matters concerned with the design, development, installation, and implementation of information systems and applications.

IV&V — **Independent Validation and Verification.**
An IV&V review executes independent procedures by a third party that are used for checking that a model, product, service, or system meets requirements and specifications and that it fulfills its intended purpose. IV&V reviews of SBA's Office of Financial Analysis and Modeling financial models are conducted to assure that they are accurate and properly functioning.

JAAMS — **Joint Administrative Accounting Management System.**

Jobs Act — **Small Business Jobs Act of 2010.**
Most often referred to as the Jobs Act in SBA documents, may also be referred to as SBJA.

LAS — **Loan Accounting System.**
SBA's loan origination servicing and disbursement system.

LMAS — **Loan Management and Accounting System.**
Financial management system that supports loan accounting.

MAS — **The GSA Multiple Award Schedule.**

MD&A — **Management's Discussion and Analysis.**
The MD&A is required supplementary information for federal financial statements and is designed to provide a high level overview of the Agency.

MRA — **Master Reserve Account.**
SBA's fiscal agent maintains this escrow fund to facilitate the operation of the Certified Development Company program.

MRF — **Master Reserve Fund.**
SBA's fiscal and transfer agent maintains this reserve fund to facilitate the operation of the 7(a) secondary market program.

NAICS — **North American Industry Classification System.**

NIST — **National Institute of Standards and Technology.**
An agency of the U.S. Department of Commerce.

OCA — **Office of Capital Access.**
The SBA office responsible for small business loans, lender oversight, and the surety bond program.

OCFO — **Office of the Chief Financial Officer.**
Responsible for the financial leadership of the Agency, including all Agency disbursements, management, and coordination of Agency planning, budgeting, analysis, and accountability processes.

OCRM — **Office of Credit Risk Management.**
SBA office that manages program credit risk, monitors lender performance, and enforces lending program requirements.

ODA — **Office of Disaster Assistance.**
SBA office that promotes economic recovery in disaster ravaged areas. SBA disaster loans are the primary form of federal assistance for non-farm, private sector disaster losses for individuals and businesses.

OFA — **Office of Financial Assistance.**
SBA office that administers various loan programs to assist small businesses.

OFPO	**Office of Financial Program Operations.** Leads the financial services industry in quality products and services to SBA partners and customers, and to protect the integrity of SBA programs.
OHRS	**Office of Human Resources Solutions.** Develops and provides innovative human capital strategies. The office advises SBA management with respect to selecting, developing, and managing a high quality, productive workforce.
OIC	**Office of Internal Controls.** Office within the Office of the Chief Financial Officer that has the lead in ensuring managers comply with internal control standards.
OIG	**Office of Inspector General.** Conducts and supervises audits, inspections, and investigations relating to SBA programs and operations.
OMB	**U .S. Office of Management and Budget.** White House office that oversees preparation of the federal budget and supervises its administration in Executive Branch agencies.
OPM	**U.S. Office of Personnel Management.** The federal government's human resources agency.
OPM&CFO	**Office of Performance Management and Chief Financial Officer.** Conducts and promotes effective financial management activities for the SBA including budget, credit subsidy, financial operations, financial systems, internal controls, and acquisitions.
ORACLE	**The accounting program used by SBA's Administrative Accounting Division.**
PAR	**Performance and Accountability Report.** Annual report that presents financial, budgetary, and performance information to OMB, Congress, and the public.
PCECGF	**Pollution Control Equipment Contract Guaranty Fund.** Supports costs associated with the credit portfolio of pre-October 1991 pollution control equipment loans and guaranties being liquidated by the SBA.
POA&M	**Plan of Action and Milestones.**
PPS	**Probability Proportional to Size.**
QA	**Quality Assurance.** Functions to assure that project deliverables meet SBA's requirements and quality standards.
QAR	**Quality Assurance Review.**
RGDP	**Real Gross Domestic Production.**
SAM	**System for Award Management.** The federal government system that tracks grant awards.
SBA	**U.S. Small Business Administration.** A federal agency of the Executive Branch whose mission is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters.
SBAExpress	Provides selected lenders with a 50 percent guaranty on loans in exchange for the ability to primarily use their own application and documentation forms, making it easier and faster for lenders to provide small business loans of $350,000 or less.
SBDC	**Small Business Development Center program.** SBDCs provide management and technical assistance, economic development, and management training to existing and prospective small businesses through cooperative agreements with universities and colleges and government organizations.
SBG	**Surety Bond Guarantee program.** Provides guaranties, bid, performance, and payment bonds for contracts up to $2.0 million for eligible small businesses that cannot obtain surety bonds through regular commercial channels.

SBGRF — **Surety Bond Guaranty Revolving Fund.**
All the contractor and surety fees collected by the SBA are deposited in the SBGRF at the U.S. Department of the Treasury, which is used to pay claims.

SBIC — **Small Business Investment Company.**
Provides long-term loans, debt-equity investments, and management assistance to small businesses, particularly during their growth stages.

SBIR — **Small Business Innovation Research program.**
A highly competitive SBA program that encourages domestic small businesses to engage in federal research/Research and Development (R/R&D) that has the potential for commercialization.

SBJA — **Small Business Jobs Act of 2010.**
Most often referred to as the Jobs Act in SBA documents.

SBLC — **Small Business Lending Company.**
Non-depository small business lending companies listed by the SBA Office of Capital Access.

SCORE — A volunteer organization sponsored by the SBA that offers mentoring and training for small business owners who are starting, building, or growing their businesses.

SME — Refers to small and medium-sized enterprises.

SOP — **Standard Operating Procedure.**
SOPs are the primary source of the Agency's internal control.

SPFI — **Summary of Performance and Financial Information.**
One of three annual financial and performance reports required of federal agencies.

STEP — **State Trade and Export Promotion program or grant.**
A pilot export initiative to make matching-fund awards to states to help small businesses enter and succeed in the international marketplace.

STTR — **Small Business Technology Transfer Program.**
Expands funding opportunities in the federal innovation research and development arena.

VAT — **Vulnerability Assessment Team.**
Performs monthly scans of network-attached devices to identify and remedy network vulnerabilities.

WBC — **Women's Business Center program.**
WBCs provide long-term training and advising to women who own or manage a business, including financial, management, marketing, and technical assistance and procurement.

DID YOU KNOW

A new Spanish language online course for young entrepreneurs – *Entrepreneurs: An Essential Guide to Starting Your Own Business* – is a free, self-paced course that gives an overview of basic business principals.

For more information visit: http://www.sba.gov/tools/sba-learning-center/training/j-venes-emprendedores-young-entrepreneurs-spanish

APPENDIX 3 – OIG AUDIT FOLLOW-UP ACTIVITY

Throughout the year, the OIG conducts audits of SBA's processes, procedures, and programs, and makes recommendations for improvement. Many of these recommendations are not material, relative to their dollar impact on SBA's financial and administrative operation, but are beneficial to SBA's management. If SBA management disagrees with an OIG recommendation, the OIG may revise the recommendation or refer the issue to a higher level of SBA management. When both SBA management and the OIG agree on the recommendation, SBA management develops a corrective action plan, including a target date for completion. This recommendation is identified as having a "Management Decision." When the corrective action plan is implemented and the recommendation has been fully addressed, the recommendation is identified as having a "Final Action."

The OCFO maintains a database to track the recommendations through to the conclusion, or Final Action. During FY 2014, there were 92 Final Actions resulting from four monetary and 88 non-monetary recommendations. The status of the corrective actions is updated regularly and is available for review on the SBA Intranet.

The following tables depict SBA's final action activity for FY 2014 and the status of corrective action plans not implemented within one year:

- Table I: Final Action on Audit Recommendations with Disallowed or Questioned Costs, with accompanying pages describing the detail activity by report number.
- Table II: Final Action on Audit Recommendations with Funds Put to Better Use, with accompanying pages describing the detail activity by report number.
- Table III: Final Action on Audit Recommendations Not Completed within One Year.

TABLE I FINAL ACTION ON AUDIT RECOMMENDATIONS WITH DISALLOWED / QUESTIONED COSTS OCTOBER 1, 2013 – SEPTEMBER 30, 2014

	Number of Recommendations	Disallowed Costs (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	1	$12
B. Recommendations on which management decisions were made during the period.	20	$56,482
C.Total recommendations pending final action during period.	21	$56,494
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	1	$570
(b) Property		
(c) Other	1	$311
2. Write-Offs		
3. Total	2	$881
E. Recommendations needing final action at the end of the period.	19	$55,613

Table I - Detail of Final Action Activity

Disallowed / Questioned Costs

Report # 13-16R, Purchase Reviews Allowed $4.6 Million in Improper Payments on 7(a) Recovery Act Loans

Summary: The audit objective was to determine if the SBA is mitigating its risk of loss, specifically, whether the SBA is ensuring that 7(a) Recovery Act loans were originated, closed, liquidated, and purchased in accordance with SBA's policies and procedures and prudent lending standards. The OIG identified questioned costs for six loans, one of which was $310,637. The audit recommended that the SBA seek recovery from the bank for the guarantied amount paid. The

Office of Financial Program Operations, the Office of Credit Risk Management, and the Office of Financial Assistance submitted their opinion to the OIG that the purchase of this loan did not constitute an improper payment and each recommended not to seek recovery. The OIG accepted their opinion and no recovery was sought.

Final Action: $310,637 not collected (Other)

Report # 14-09, Purchase Reviews Allowed $3.1 Million in Improper Payments on 7(a) Recovery Act Loans

Summary: The audit was a second in a series of ongoing audits of purchased 7(a) Recovery Act Loans. The audit objective was to determine if the SBA is mitigating its risk of loss, specifically, whether the SBA is ensuring that 7(a) Recovery Act loans were originated, closed, liquidated, and purchased in accordance with SBA's policies and procedures and prudent lending standards. The OIG identified questioned costs for three loans, one of which was $897,091. The audit recommended that the SBA seek recovery from the bank for the guarantied amount paid less any amounts received from liquidation. The amount collected was $570,763.15.

Final Action: $570,763.15 collected / $0.00 written off

TABLE II FINAL ACTION ON AUDIT RECOMMENDATIONS WITH FUNDS PUT TO BETTER USE
OCTOBER 1, 2013 – SEPTEMBER 30, 2014

	Number of Recommendations	Funds to be Put to Better Use (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period. .	1	$2,500
B. Recommendations on which management decisions were made during the period.	1	$43,000
C. Total recommendations pending final action during period.	2	$45,500
D. Recommendations on which final action was taken during the period..		
1. Value of recommendations implemented (completed).	1.5	$43,800
2. Value of recommendations that management concluded should not or could not be implemented or completed.	.5	$1,700
3. Total	2	$45,500
E. Recommendations needing final action at the end of the period.	0	$0

Funds for Better Use

Report # 12-08, Assessment of Lender Loan Reporting Process

Summary: The objective of the audit was to determine the adequacy of SBA's controls and oversight over the development, security, and operation of certain information technology systems and processes performed by a contractor. The audit recommended that SBA collect $2.5 million in secondary market late penalty fees by either billing lenders or offsetting against any guarantee purchase amounts. SBA researched and collected fees of $815,217.

Final Action: $815,217 implemented; $1,684,783 not implemented

Report #12-18, Audit of 7(a) Early Defaulted Loans

Summary: The objective of the audit was to determine why adequate reviews of repayment ability were not being performed and the amount of federal funds that could be saved if the SBA thoroughly reviewed repayment ability during the guaranty purchase review of early defaulted loans. One of the three recommendations required a revision of the purchase process to verify lender's compliance with SBA's repayment ability requirements and estimated a cost savings of $43 million. OFPO agreed to modify the process and incorporate repayment ability guidance as indicated in the SOP 50-10 5F, effective January 1, 2014.

Final Action: $43 million implemented; $0 not implemente

October 1, 2013 – September 30, 2014

Report # 4-34, SBA's Process for Complying With the FMFIA Reporting Requirements

Program: OCFO

Date Issued: 07/29/2004

Management Decision Date: 09/09/2004

Explanation: The two recommendations remaining open are to the Office of the Chief Financial Officer (OCFO) to revise, clear and issue the draft SOP 00 02 3 and clearly define material weakness as it relates to SBA and at the different levels of management within the Agency. The SOP was substantially rewritten in FY 2013 and a draft was completed in FY 2014; however, it was not submitted for clearance due to the Office of Management and Budget's announcement that their guidance will be updated in FY 2015 to align with the GAO's new guidance in the Green Book. The anticipated completion date is 9/30/15, dependent on the issue date of OMB's new guidance.

Report # 6-10, SBA's FY 2005 Financial Statements Management Letter

Program: OCFO

Date Issued: 01/18/2006

Management Decision Date: 03/06/2006

Explanation: There is one open recommendation to the Office of the Chief Financial Officer to update the accounting SOP to include SBA's policies and procedures to reflect the GL accounts and data field updated for each transaction. The accounting pro forma on LAS transactions is available in "table format" in the CGL, but data field updates are not shown. OCFO is working on a project to document the loan program accounting procedures in the Denver Finance Center. The accounting pro forms for loan accounting system transactions will be included in this project. This audit recommendation is expected to have a final action by 09/30/2015.

Report # 8-12, Oversight of SBA Supervised Lenders

Program: OCA

Date Issued: 05/09/2008

Management Decision Date: 06/26/2008

Explanation: One recommendation remains open to the Office of Capital Access (OCA) to establish risk mitigation goals applicable to each loan program and the entire lending portfolio. OCA will develop program level performance benchmarks and risk mitigation goals for each 7(a) loan program and the entire 7(a) portfolio based on OCRM's PARRiS framework. The PARRiS assessment system is designed to measure the level of risk at the lender, program and portfolio level. The program and portfolio risk mitigation goals will focus on Performance, Asset management and Regulatory performance – utilizing the current metrics framework. Expected completion of this final action is 12/31/2014.

Report # 9-05, SBA's FY 2008 Financial Statements - Management Letter

Program: OFA

Date Issued: 12/17/2008

Management Decision Date: 02/18/2009

Explanation: The two open recommendations are to the Office of Financial Assistance to reinforce the importance of the collateral analysis in an updated SOP and ensure the revised Disaster Loan SOP identifies procedures related to the disposition of collateral. OFPO issued a collateral release memorandum to staff in June 2011 reinforcing this information. Additionally, SOP 50 52 in final draft and is being prepared for Agency Clearance by the end of the calendar year 2014. The final action due date for this recommendation is 12/31/14.

Report # 10-14, Audit of Quality Assurance Oversight of the Loan Management and Accounting System Project

Program: ODM

Date Issued: 09/13/2010

Management Decision Date: 06/13/2011

Explanation: The remaining recommendation for this audit is to the Office of the Administrator to require the LMAS Quality Assurance plan to incorporate all the components required by the enterprise-wide QA plan. The ITQA SOP was updated and SBA has demonstrated significant progress in implementing a quality assurance process by conducting QA reviews. The expected final action is expected by September 2015.

Report #ROM 11-04, Audit of SBA's Recovery Act Data on Public Websites.

Program: CFO

Date Issued: 3/22/11

Management Decision Date: 06/30/2012

Explanation: The six recommendations are to the Office of the Chief Financial Officer to determine if awards were made or funds should be de-obligated on 66 purchase requisitions; to perform routine reconciliation of executed awards to FPDS-NG.gov; to deploy an independent statistical verification and validation of all SBA transactions; to determine if Recovery Act funds were used to fund 13 contracts; to develop a data quality plan; and to monitor contractor reported information and prime contractor information for accuracy. The OCFO is researching data to resolve the contract funding issues and is developing procedures to ensure data accuracy in the future. The independent verification and validation of SBA transactions and the revision of the data quality plan have been implemented; follow-up with the OIG should close these issues. Final actions for all recommendations are estimated to be 9/30/15.

Report # 11-06, Audit of FY2010 Federal Information Security Management Act Review

Program: CIO

Date Issued: 01/28/2011

Management Decision Date: 03/28/2011

Explanation: The four remaining recommendations are to the Office of the Chief Information officer to (1) require an updated list of Major Systems and their interfaces; (2) manage, control, and monitor system interconnections throughout their lifecycle; (3) develop and maintain a centralized inventory of all Agency hardware and software; (4) develop and document baseline configuration for each information system. Status for these recommendations include: (1) and (2) A project is underway to document interfaces and establish Interconnection Service Agreements (ISAs) for FISMA systems. Estimated completion of the final action is 6/30/15. (3) An Asset Management policy is in the process of being finalized. Agency hardware and software assets are now tracked using BigFix and Software Usage Analysis (SUA). A closure package is under review for submission to the OIG. The final action completion date is estimated to be 12/31/14. (4) Baselines have been developed for LAN/WAN components. OCIO servers are in the process of being baselined. Baselines are needed for all agency systems. Final action completion is estimated to be 12/31/14.

Report #11-07, Audit of Insurance Recovery Checks at the Disaster Loan Servicing Centers

Program: OFPO

Date Issued: 02/10/2011

Management Decision Date: 04/07/2011

Explanation: The recommendation is to the Office of Capital Access to revise the SOP to provide detailed instructions for processing insurance recovery checks. OFPO developed and issued a duplication and benefits logic tree and narrative to assist in the processing of insurance recovery checks. Additionally, SOP 50 52 in final draft and is being prepared for Agency Clearance by the end of the calendar year. The final action due date for this recommendation is 12/31/14.

Report #11-10, Management Advisory Report on the Records Management and Documentation Process at the Disaster Loan Servicing Centers.

Program: FPO

Date Issued: 03/29/2011

Management Decision Date: 06/20/2011

Explanation: The two recommendations are to the Office of Financial Programs to (1) develop record designation requirements for all loan servicing documents and incorporate the guidance into SOP 50 52 and (2) to revise the SOP to preserve the analyses performed to conduct all servicing actions. (1) Electronic recordkeeping guidelines internal desk document was developed and issued to center personnel in February 2012. Additionally, SOP 50 52 in final draft and is being prepared for Agency Clearance by the end of the calendar year. The final action due date for this recommendation is 12/31/14. (2) A memorandum was issued to staff and has been reinforced with training. Additionally, SOP 50 52 in final draft and is being prepared for Agency Clearance by the end of the calendar year. The final action due date for this recommendation is 12/31/14.

Report #11-14, Audit of Funding of Information Technology Contracts Awarded to Isika Technologies, Inc.

Program: CFO

Date Issued: 06/02/2011

Management Decision Date: 12/11/2011

Explanation: The two remaining recommendations are to the Office of the Chief Financial Officer and require a review of funding to ensure SBA did not violate the Anti-Deficiency Act during a Continuing Resolution in 2011 and a review of SBA's funding procedures. The OCFO is researching the funding issue to ensure funds were not inappropriately obligated and will review written policies and procedures to ensure work is performed in compliance with the FAR. Final action completion date is estimated to be 9/30/15.

Report #12-02, Audit of FY 2011 Financial Statements

Program: OCIO

Date Issued: 11/14/11

Management Decision Date: 12/22/2011

Explanation: The five open recommendations are to the Office of the Chief Information Officer and require (1) coordination with SBA program offices to enhance security vulnerability management processes; (2) ensure that information systems hosted by third parties comply with SBA policy and NIST guidance; (3) Oversee the review and validation of financial system accounts quarterly; (4) monitor the audit logs of all financial applications regularly; and (5) implement configuration management policies and procedures for document retention for operating system changes. Resolution activities include (1) OCIO is developing a more thorough approach to track and mitigate configuration management vulnerabilities identified during monthly scans, and will monitor security vulnerability reports for necessary or required configuration changes to the environment. Estimated completion date is 2/28/18. (2) OGC has provided some statements of work that have an IT component in them for security language review. OCIO is seeking all procurement contracts to affect change. Estimated completion date is 9/30/17. (3) SOP 90-47-3 requires that account reviews should be done semi-annually. OCFO has been providing OCIO with account review checklist semi-annually. For the OCIO, there currently is not an authoritative source available to perform quarterly reviews. Estimated completion date is 6/30/15. (4) OCIO purchased a tool and will install it to regularly monitor audit logs. Estimated completion date is 9/30/15. (5) SBA currently follows the operating procedures outlined in the ECCB charger IAW SOP 90 42 0. OCIO will work the OIG to close this recommendation. Estimated completion date is 9/15/15.

Report #12-04, Audit of Annual Small Business Procurement Calculations

Program: GC/BD

Date Issued: 12/6/11

Management Decision Date: None

Explanation: The four recommendations are to the Office of Government Contracting and Business Development and require (1) revision of the Goaling Guidelines for the Small Business Preference Programs to include overseas contracts in the small business goaling baseline; (2) finalization of the draft memorandum dated January 25, 2008, Exemptions from Goaling; revisions of the Goaling Guidelines based on OGC's final opinion on the exemptions of goaling; and (4) notification to GSA of any programming updates to the FPDS-NG resulting from changes to goaling guidance. In accordance with the National Defense Authorization Act of 2013, the Chief Counsel for Advocacy of the Small Business Administration shall conduct an independent assessment of the small business procurement goals established in section 15(g) of the Small Business Act. In addition, the Department of Defense is required to conduct an independent assessment of federal procurement contracting performance of the Department of Defense. Because of the direct potential impact that these two assessments would have on the Small Business Goaling Guidelines, GCBD will await their results before finalizing revisions to the Small Business Goaling Guidelines.

Report #12-14, Audit of Disaster Loans in Liquidation

Program: OCA

Date Issued: 7/9/12

Management Decision Date: 9/25/12

Explanation: The three remaining recommendations are to the Office of Capital Access and recommends that (1) specific actions be taken for loans over 180 days delinquent that are secured by collateral; (2) immediately charge-off loans over 180 days delinquent not secured by collateral; and (3) Update SOP's to include Debt Collection Improvement Act and Treasury Managing Federal Receivables Guide requirements. Resolution activities include (1) creating procedures to identify the feasibility of foreclosure. OFPO is also creating a report to identify loans that will be charged-off when foreclosure on the collateral is not feasible. Estimated completion date is 3/24/15; (2) generating a report to identify disaster loans in liquidation status that are delinquent over 180 days and not secured or exempt from referral to Treasury. Estimated completion date is 3/24/15; and (3) SOP 50 52, which provides DCIA guidance, is in its final draft form. Estimated completion is 12/31/14.

Report #12-15, Audit of FY 2011 Federal Information Security Management Act Review

Program: OCIO

Date Issued: 7/16/12

Management Decision Date: 8/16/12

Explanation: The three remaining recommendations are to the Office of the Chief Information Officer and require (1) development of an overall strategy to implement OIG recommendations on FISMA security requirements; (2) perform recertification reviews of agency general support systems or design compensating controls; and (3) continuously monitor remote access audit logs for unauthorized activity. OCIO will (1) hold weekly meetings to prioritize and monitor remediation progress on OIG recommendations and provide a report to the CIO. Estimated completion date is 9/30/15; (2) OCIO does not have an authoritative source available to perform recertification reviews for users of the general support systems; information is received from ODA and OCFO semi-annually; the intake process will need revision. Estimated completion date is 6/30/15; and (3) OCIO purchased a tool and once installed, will monitor remote access audit logs for unauthorized activity. Estimated completion date is 9/30/15.

Report #12-16, Audit of Government Purchase Card for Construction Purchases

Program: CFO

Date Issued: 8/6/12

Management Decision Date: 9/11/12

Explanation: The two recommendations are to the Office of the Chief Financial Officer and require that purchase cardholders have current delegation letters that reflect limitations and approving officials and that training be provided by OCFO on the proper use of government purchase cards to include the definition of construction. The OCFO has completed both actions and will work with the OIG to close these recommendations. Estimated completion date is 4/30/15.

Report #12-18, Audit of 7(a) Early Defaulted Loans

Program: OCA

Date Issued: 8/16/12

Management Decision Date: 11/5/12

Explanation: The one remaining recommendation requires the Office of Capital Access to perform a cost/benefit analysis for detailed reviews of early defaulted loans of less than $500,000. OFPO will review past data to identify root causes for low dollar, early default loans and provide a risk assessment. Estimated completion date is 9/30/15.

Report #12-22, Audit of SBA's Ratification Process

Program: OCFO

Date Issued: 9/28/12

Management Decision Date: 10/12/12

Explanation: The one remaining recommendation is to the Office of the Chief Financial Officer and requires that a review of ratification actions for Anti-Deficiency Act violations. The OCFO reviewed the ratified commitments and confirmed that no Anti-Deficiency violations occurred. The OCFO is working with the OIG to close these recommendations. Anticipated completion date is 4/30/15.

Report #13-01, Audit of SBA's Section 8(a) Program's use of Internal Revenue Service Tax Verification Form 4506T

Program: OBD

Date Issued: 10/4/12

Management Decision Date: 3/11/13

Explanation: The four recommendations are to the Office of Business Development and require changes to SOP 80 05 A to ensure (1) completion of Form 4506T and prompt submission; (2) completion of Form 4506T prior to the start of the annual review and prompt submission; (3) suspension of the firm if tax returns submitted to SBA do not agree with those submitted to the IRS; and (4) comparison of IRS transcripts with the tax return and advise OIG of discrepancies. The BD will incorporate all recommendations with the SOP 80 05 3 revision. Estimated completion date is 9/30/15.

Report #13-03, Audit of Mentor Protégé Joint Ventures

Program: GCBD

Date Issued: 10/23/12

Management Decision Date: 1/24/13

Explanation: The ten remaining recommendations are to the Office of the Government Contracting and Business Development and require a review of the Mentor-Protégé Program to (1) develop specific measurements to evaluate the benefits of joint venture agreements; (2) assess risk of the program; (3) verify information submitted by 8(a) firms as part of the annual review; (4) conduct site visits of 8(a) firms as part of the annual review; (5) collect quarterly or semiannual contract status updates as part of the annual review; (6) collect work performance reports as part of the annual review; (7) conduct a joint venture closeout evaluation as part of the annual review; (8) maintain complete data on 8(a) firms while deploying a new information system; (9) maintain joint venture arrangement data; and (10) interface data system with other systems. Resolution activities include (1) development of metrics to measure benefits of Mentor-Protégé and Joint Venture relationships; (2) development of risk assessment procedures; (3) through (7) enhancement of annual review procedures; and (8) through (10) implementation of One-Track CMS system to collect and maintain up-to-date data. Estimated completion date is 9/30/15.

Report #13-04, Audit of SBA's FY 2012 Financial Statements

Program: OCIO

Date Issued: 11/14/12

Management Decision Date: 3/8/13

Explanation: The 11 remaining recommendations are to the Office of the Chief Information Officer and require (1) enhancement of security vulnerability management processes; (2) that information systems hosted by SBA comply with SBA policy and NIST guidance; (3) new system users are required to change their password upon first log-in; (4) system access is removed for terminated/transferred users; (5) enforce procedures for user access approvals; (6) oversee validation of financial system accounts; (7) monitor financial system audit logs; (8) there is a segregation of duties between the database and system administrators' accesses; (9) enforce an organization-wide configuration management process; (10) include document retention for operating system changes in policies and procedures; and (11) conduct a Business Impact Analysis, implement contingency plans, and establish an alternate processing site. Resolution activities include (1) OCIO purchased a tool to enhance security management and will implement a review process once installed; OCIO has worked with ODA and OCFO to address security management. Estimated completion date 12/31/14; (2) OGC has provided some statements of work that have an IT component in them for security language review. OCIO is seeking all procurement contracts. Estimated completion date is 9/30/17; (3) all passwords for new users are random, unique and are required to be changed after initial log-on. OCIO will work with OIG to close this recommendation; Estimated completion date is 12/31/14; (4) coordination with OHRS to receive separation, new hires and job change reports every two weeks; ODA has a tool to identify separated personnel daily to remove access; OCFO has been using a separation list to remove access from OCFO systems and they conduct semi-annual account verifications. Estimated completion date is 12/31/14; (5) LAN/WAN access is documented through SBA Form 1228 process; OCIO is coordinating with OHRS to receive new hires and job change reports in addition to separation reports to disable accounts. Estimated completion date is 12/31/14; (6) OCFO has been providing OCIO with account review checklists semi-annually, which is required in SOP 90 47 3. OCIO will work with the OIG to close this recommendation. Estimated completion date is 6/30/15; (7) OCIO purchased a tool and after installation will monitor financial system audit logs. OCFO purchased Qradar for log reduction and notification. Estimated completion date is 9/30/15; (8) OCFO purchased Qradar for log reduction and notification. OCIO will work with OIG to close this recommendation. Estimated completion date is 12/31/14; (9) SBA currently following the operating procedures outlined in the ECCB charger IAQ SOP 90 42 0. OCIO will work with the OIG to close this recommendation. Estimated completion date is 12/31/14; (10) OCIO has implemented Tripwire for configuration management. OCFO uses Sharepoint and Bugzilla to record change request and approvals. OCIO will work with the OIG to close this recommendation. Estimated completion date is 12/31/14; and (11) Business Impact Analysis have been conducted; the alternate processing site is being addressed by the move of OCIO and OCA infrastructures to SAVVIS in Sterling, VA. The recommendation will remain open until the move is complete. Estimated completion date is 3/30/17.

Report #13-06i, Audit of SBA's Section 8(a) Annual Review

Program: BD

Date Issued: 11/13/12

Management Decision Date: 3/11/13

Explanation: The two recommendations are to the Office of the Business Development and require that SOP 80 05 3 be revised to extend time for annual reviews, subject firms to termination if information is not provided, and allow SBA to place an 8(a) firm in a "decision pending" category during the additional period. Resolution will be achieved with the update of the SOP. Estimated completion date is 9/30/15.

Report #13-07, Audit of SBA's 7(a) Guaranty Purchases Improper Payments

Program: OCA

Date Issued: 11/15/12

Management Decision Date: 11/4/13

Explanation: The three remaining recommendations are to the Office of the Capital Access and require (1) monitoring the effectiveness of the improper payment checklist; (2) seek recovery of $1,106,116, less subsequent liquidation recoveries from a lender; and (3) seek recovery of $714,444, less liquidation recoveries form a lender. Resolution activities include (1) creation of monthly reports to analyze deficiency trends over a six month period. The process is documented in program guides which have been updated. Estimated completion date is 10/15/14; (2) file review by the Dispute Resolution Committee. Estimated completion date is 2/16/15; and (3) submission of the file to the Deputy Administrator for a decision as OCA does not agree with the finding. Estimated completion date is 9/30/15.

Report #13-08, Audit of SBA's 8(a) Information Technology Contracts

Program: OCFO

Date Issued: 12/3/12

Management Decision Date: 1/18/13

Explanation: The 13 remaining recommendations are to the Office of the Chief Financial Officer and require (1) and (2) referral of two vendors to the Suspension and Debarment Official to take debarment action; (3) implement procedures to determine if prospective contractors are "responsible" prior to awarding a contract; (4) demonstration of proficiency in price analysis; (5) retention of records used to establish price; (6) verification of price analysis procedures; (7) perform an assessment in compliance with Conducting Acquisition Assessments under OMB Circular A-123; (8) enhance internal controls in response to any weaknesses identified in the assessment; (9) update payment processing internal controls; (10) recover $12,073 for a duplicate payment from a vendor; (11) provide a list of approvers to payment personnel; (12) implement attachment of a receiving report to each invoice; and (13) implement an automatic interface between systems to tie payments to a contract number instead of purchase order numbers. Resolution activities include (1) and (2) referral to OGC's Suspension and Debarment official; (3) procedures are in place to determine if prospective contractors are "responsible"; procedures will be documented in a revised SOP; (4) current contracting officers are proficient in price analysis; procedures will be documented in a revised SOP; (5) documents are retained; procedures will be documented in a revised SOP; (6) price analysis procedures will be documented in the revised SOP; (7) an acquisition assessment to comply with OMB Circular A-123 is currently being conducted; (8) internal controls will be enhanced if any weaknesses are identified in the assessment; (9) payment processing controls are in place and will be documented in the revised SOP; (10) demand was made to the vendor for $12,073; (11) an automated payment process was implemented in December 2011 that limits invoice review to authorized approvers; this process will be documented in the revised SOP; (12) a process for receipts will be included in the revised SOP; and (13) an interface has been established between systems to ensure the contract number and purchase order number are the same. Estimated completion date is 9/30/15.

Report #13-09 SBA's FY 2012 Financial Statements – Management Letter

Program: OCFO and OHRS

Date Issued: 12/12/12

Management Decision Date: 2/7/13

Explanation: The eight remaining recommendations include one to the Office of the Chief Financial Officer and seven to the Office of Human Resource Solutions and require (1) the OCFO to develop and implement an SOP for initiating, monitoring and closing obligations; (2) the CHCO to reinforce policies and procedures for time and attendance reports; (3) the CHCO to perform quality assessment reviews of time and attendance reports; (4) the CHCO to provide training on an employee's checklist; (5) the CHCO to encourage an employee's separation process to begin two weeks prior to departure; (6) the OHRS staff to review checklists for completion and acceptance; (7) the CHCO to implement administrative actions for SBA officials who do not adhere to separation policies; and (8) the CHCO to ensure checklists are received timely and submitted to Payroll for processing. Resolution activities include (1) the OCFO has initiated a project to update the SOP for obligations; estimated completion date is 3/31/15; (2) OHRS will provide training to managers and continue to conduct ad hoc audits of time and attendance records; (3) OHRS will continue to conduct ad hoc audits and anticipates performing at least four quality assurance reviews each quarter; (4) OHRS will provide training on the completion and acceptance of the SBA Form 78, Separations Checklist, and will publish and Information Notice; (5) OHRS will discuss the importance of beginning the separation process early during the training of managers and supervisors; (6) OHRS will perform ad hoc reviews of completed checklists and provide refresher training as needed; OHRS will also create an Internal Operating Procedures document that will include separation checklist procedures; (7) OHRS will create a Separations Checklist Non-Compliance memo that includes a description of the non-compliance issue, recommended corrective action and the SBA's official acknowledgement and corrective actions and take appropriate action if a program office receives three or more notices with a fiscal year; and (8) OHRS will create an Internal Operating Procedures document that will include SBA's retention schedule and procedures for processing separation checklists. Estimated completion date is 9/30/15.

Report #13-11 Audit of SBA's Loan Management and Accounting System – Incremental Improvements Projects

Program: OCIO

Date Issued: 3/12/13

Management Decision Date: 9/12/13

Explanation: The two remaining recommendations are to the Office of the Chief Information Officer and to the Office of Capital Access and require (1) adoption of a new incremental improvement project under LMAS to facilitate the transfer of data to a new COBOL code; and (2) implementation of an Independent Verification and Validation program for LMAS. Resolution activities include (1) OCA has set up IIP --Migrate COBOL code into a Production UNIX Environment. OCA will develop an incremental improvement project to migrate the COBOL code to a production environment. There will be two phases: 1. To migrate the code and run in parallel with the Unisys mainframe environment. 2. After stakeholder approval, become the agency's only batch loan accounting system. Estimated completion date is 2/15/2015; and (2) an IV&V process is fully implemented for LMAS; the scope of this recommendation was expanded to require full implementation of an IV&V for all SBA development projects. Estimated completion date is 9/30/15.

Report # 13-12, Audit of Contracting Practices to Reconfigure Space

Program: OCFO

Date Issued: 3/26/13

Management Decision Date: N/A

Explanation: One remaining recommendation to the Office of the Chief Financial Officer to direct a contracting officer to review all invoices related to space reconfiguration in the Office of International Trade and make a determination if all work was performed. Resolution activities include reviewing all invoices and confirming the work was performed. Estimated completion date is 3/31/15.

Report # 13-14, Audit of 417 Unauthorized Commitments

Program: OCFO

Date Issued: 3/28/13

Management Decision Date: N/A

Explanation: Three remaining recommendations to the Office of the Chief Financial Officer require (1) determination if administrative or legal actions against employees making unauthorized commitments are feasible; (2) Incorporation of COR Acceptance Letter and FAR into COR's annual performance assessment; and (3) provide annual training to employees on managing contracts to avoid unauthorized commitments. Resolution activities include (1) exploring actions against employees making unauthorized commitments with OGC and the union; (2) working with OHRS to incorporate COR requirements in the annual performance assessment for CORS; and (3) providing annual training to employees on managing contracts. Estimated completion date is 9/30/15.

Report # 13-16R, Audit of SBA's 7(a) Guaranty Purchase of Recovery Act Loans Improper Payments

Program: OCA

Date Issued: 6/14/13

Management Decision Date 3/28/14

Explanation: Five remaining recommendations to the Office of the Capital Access require (1) recovery of $1,425,427 from a lender; (2) recovery of $669,963 from a lender; (3) recovery of $967,869 from a lender; (4) recovery from a lender of $555,368 from a lender; (5) recovery of $680,900 from a lender. All five files for the audit are in the dispute resolution process. Estimated completion date is 3/31/15.

Report # 13-17, Audit of SBA's Portfolio Risk Management Program

Program: OCA

Date Issued: 6/14/13

Management Decision Date 9/30/13

Explanation: Two remaining recommendations to the Office of Capital Access require (1) use of portfolio risk management program data to support risk-based decisions in its loan programs; and (2) implementation of additional controls to mitigate identified risks where necessary. Resolution activities include (1) conducting a set of risk based portfolio analyses. Estimated completion date 3/30/15; and (2) enhancing or adding additional controls as necessary. Estimated completion date is 6/30/15.

Report # 13-18, Audit of SBA's Defaulted Disaster Loans

Program: OCA

Date Issued: 9/27/13

Management Decision Date 3/31/14

Explanation: Eight recommendations to the Office of Capital Access require (1) transfer of all eligible charged-off loans to Treasury for cross-servicing; (2) transfer of all eligible charge-off loans to Treasury, including those with unliquidated collateral; (3) transfer of all legally enforceable debts already charged-off to Treasury for cross-servicing; (4) transfer of all debtors associated with charged-off debts to Treasury; (5) transfer of loans in litigation after charge-off to Treasury if litigation is dismissed; (6) security agreements be tracked and renewed as needed; (7) offer-in compromise settlements to be in compliance with SBA's SOP; (8) publish a mission statement, update the SOP, establish a performance management process for the disaster loan liquidation center. Resolution activities include (1) creation of management controls to ensure all eligible charge-off loans are transferred to Treasury. Estimated completion date is 3/24/15; (2) creation of management controls to ensure loans with unliquidated real estate collateral are transferred to Treasury. Estimated completion date is 3/27/15; (3) creation of management controls to ensure debtors with legally enforceable debts already charged off are transferred to Treasury. Estimated completion date is 3/27/15; (4) creation of management controls to ensure debtors associated with charged-off legally enforceable debts are transferred to Treasury. Estimated completion date is 3/27/15; (5) documentation of workout process for delinquent debt. Estimated completion date is 3/30/15; (6) development of management controls to ensure processes address security agreements. Estimated completion date is 12/31/14; (7) Revision of SOP 50-52 that will include offer-in-compromise authorizations. Estimated completion date is 3/30/15; and (8) Revision of SOP 50-52 to reflect current processes. Estimated completion date is 12/31/14.

Report # 13-21, Audit of SBA's Enterprise-Wide Controls over Co-Sponsored Activities

Program: OCPL, OFO, and OGC

Date Issued: 9/26/13

Management Decision Date 1/23/14 and N/A

Explanation: Seven remaining recommendations include four to the Office of Communications and Public Liaison that require (1) co-sponsorship agreement update to include all specific roles and responsibilities for fiscal agents and other accountable parties; (2) establishment of controls to ensure all activities are properly closed out and all documents are obtained; (3) periodic reviews of co-sponsorship files; and (4) training for staff. Resolution activities include (1) creation of supplemental guidance for fiscal agents in lieu of agreement update as explanations and examples can be provided; (2) exploration of technology to collect co-sponsorship information and track agreements; (3) exploration of partnership with OGC to work together on file review; and (4) providing training focused on roles and responsibilities of fiscal agents. Estimated completion date is 12/12/14. Two recommendations to the Office of Field Operations require (5) disposal of funds remaining from two conferences in accordance with SOP 90 75 3; and (6) performance of periodic quality service reviews. Resolution activities include (5) review and disposal of funds remaining on conference in accordance with SOP 90 75 3; and (6) inclusion of co-sponsored activities in the already existing Field Accountability Reviews. Estimated completion date is 9/30/15. One recommendation is to the Office of General Counsel and requires (7) revision of SOP 90 75 3 to include specific procedures on the disposition of excess funds that remain after co-sponsored activities. Resolution activities include (7) OGC, in consultation with other SBA headquarters and field personnel, recently concluded a comprehensive review of the co-sponsorship process, including how to effectively control and manage co-sponsorship funds. Lessons learned from this review are currently being incorporated into revisions to SOP 90 75 3, Outreach Activities. The revised SOP will include specific instructions on the disposition of excess co-sponsorship funds and is expected to be implemented in FY 2015.

Report # 13-22, Improved Examination Quality Can Strengthen SBA's Oversight of Small Business Investment Companies

Program: OII

Date Issued: 09/30/2013

Management Decision Date: 12/16/2013

Explanation: The three open recommendations are to the Office of Investment & Innovation require (1) Create and execute a plan to improve the internal operations of the examination function. Plan should include quality driven goals, performance indicators and better communication. (2) Update and improve existing examination checklist to better align with and reference SOP guidance for examinations, ensure focus on Category One violations, and ensure consistency across the three SBIC examination offices. (3) Assess the costs of the examination function and prepare cost-benefit analysis for several funding options, including a potential increase in examination fees in order to improve training and technology and cover other examination costs. Resolution activities include (1) OII management disagrees with this recommendation and will submit the opinion to the OIG for follow up to close the issue; (2) OII has assessed the recommendation and has taken action regarding an increase in examination fees, the action is currently in clearance, after which it will be provided to the OIG for follow up to close the issue; (3) The checklist has been reviewed and updated and will be submitted to the IG for follow up to close the issue. Final actions for all recommendations are estimated to be 10/31/14.

DID YOU KNOW

The Women's Business Center program is celebrating 25 years. The first four awards were made in 1989, and today there are 107 WBCs across the country. Over **1.7 million** clients have received training, counseling, and mentoring from WBCs.

ACKNOWLEDGMENTS

This Agency Financial Report was produced with the energies and talents of the SBA staff. To these individuals, the Office of Performance Management and the Chief Financial Officer would like to offer sincere thanks and acknowledgement.

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CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

For the past eight years, FY 2006 to FY 2013, the U.S. Small Business Administration is proud to have received the prestigious *Certificate of Excellence in Accountability Reporting* (CEAR) award from the Association of Government Accountants (AGA) for its Agency Financial Report (AFR). The CEAR program was established by the AGA in conjunction with the Chief Financial Officers Council. The award recognizes high-quality Performance and Accountability Reports and Annual Financial Reports that effectively illustrate and assess financial and program performance, accomplishments and challenges, cost and accountability.

DID YOU KNOW

Government contracts offer significant opportunities for small businesses, but selling to the government requires a very different approach than selling to the commercial sector. The SBA has created a series of free online courses to help prospective and existing small businesses understand the basics of contracting with government agencies.

For more information visit: http://www.sba.gov/gcclassroom.

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